



# ***Ugu District Municipality***

**Ugu District Municipality  
Annual Financial Statements  
for the year ended 30 June 2014  
Auditor General  
Registered Auditors**

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **General Information**

---

<b>Legal form of entity</b>	Municipality
<b>Grading of local authority</b>	Grade 5
<b>Chief Finance Officer (CFO)</b>	S P Mbili
<b>Accounting Officer</b>	D D Naidoo
<b>Registered office</b>	28 Connor Street Port Shepstone Kwa-Zulu Natal 4240
<b>Postal address</b>	P.O. Box 33 Port Shepstone Kwa-Zulu Natal 4240
<b>Bankers</b>	ABSA Bank Limited
<b>Auditors</b>	Auditor General Registered Auditors

# **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Index**

---

The reports and statements set out below comprise the annual financial statements presented to the Council:

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 11
Accounting Policies	12 - 32
Notes to the Annual Financial Statements	33 - 91
Appendices:	
Appendix A: Schedule of External loans	92
Appendix B: Analysis of Property, Plant and Equipment	95
Appendix C: Segmental analysis of Property, Plant and Equipment	101
Appendix D: Segmental Statement of Financial Performance	103
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	105
Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)	108
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	109
Abbreviations	
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IFRS	International Financial Reporting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Accounting Officer's Responsibilities and Approval**

---

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for expressing an audit opinion and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 92, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014 and were signed on its behalf by:

---

DD Naidoo  
Municipal Manager

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Statement of Financial Position as at 30 June 2014**

Figures in Rand	Note(s)	2014	2013 Restated
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	8 069 416	6 938 789
Operating lease receivable	3	57 450	43 785
Receivables from non-exchange transactions	4	9 769 194	8 557 494
VAT receivable	5	15 020 053	23 240 458
Receivables from exchange transactions	6	132 427 928	101 536 547
Current portion of long-term receivables	7	32 042	51 424
Cash and cash equivalents	8	160 671 371	71 752 397
		<b>326 047 454</b>	<b>212 120 894</b>
<b>Non-Current Assets</b>			
Investment property	9	25 000 000	25 000 000
Property plant and equipment	10	2 272 633 784	2 021 335 183
Intangible assets	11	9 599 571	10 234 753
Investments	12	100	100
Long-term receivables	7	7 404	70 292
		<b>2 307 240 859</b>	<b>2 056 640 328</b>
<b>Total Assets</b>		<b>2 633 288 313</b>	<b>2 268 761 222</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	3	59 402	34 011
Payables	13	156 379 327	135 553 155
Consumer deposits	14	19 724 662	19 379 146
Unspent conditional grants and receipts	15	48 333 086	51 508 416
Provisions	16	1 476 376	1 785 888
Current portion of long term liabilities	17	21 630 386	16 909 779
Bank overdraft	8	3 343 474	3 195 209
		<b>250 946 713</b>	<b>228 365 604</b>
<b>Non-Current Liabilities</b>			
Retirement benefit liabilities	18	23 599 788	21 375 642
Non-current provisions	19	11 076 109	8 440 747
Long term liabilities	17	165 364 259	186 446 535
		<b>200 040 156</b>	<b>216 262 924</b>
<b>Total Liabilities</b>		<b>450 986 869</b>	<b>444 628 528</b>
<b>Net Assets</b>		<b>2 182 301 444</b>	<b>1 824 132 694</b>
Accumulated surplus	20	2 182 301 444	1 824 132 694

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Statement of Financial Performance**

Figures in Rand	Note(s)	2014	2013 Restated
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	314 783 607	274 524 180
Rental of facilities and equipment	22	2 193 961	1 693 135
Interest earned	23	32 566 582	20 305 215
Other revenue	24	6 378 760	11 856 263
<b>Total revenue from exchange transactions</b>		<b>355 922 910</b>	<b>308 378 793</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	25	664 584 167	590 984 388
<b>Total revenue</b>		<b>53</b>	<b>1 020 507 077</b>
<b>Expenditure</b>			
<b>Employee related costs</b>	27	(242 287 020)	(244 233 285)
Remuneration of councillors	28	(7 784 080)	(7 848 535)
Depreciation and amortisation	29	(67 428 260)	(52 754 325)
Impairment loss/ Reversal of impairments	30	(4 664 957)	24 008 857
Finance costs	31	(15 983 120)	(16 959 929)
Collection costs		-	(258 323)
Repairs and maintenance		(16 967 534)	(11 200 244)
Bulk purchases	32	(52 126 622)	(34 650 454)
Contracted services	33	(19 579 390)	(18 131 854)
Grants and subsidies paid	34	(118 990 550)	(200 438 598)
General Expenses	35	(116 495 725)	(95 239 306)
Profit on disposal of asset		(31 069)	-
<b>Total expenditure</b>		<b>(662 338 327)</b>	<b>(657 705 996)</b>
<b>Operating surplus</b>		<b>358 168 750</b>	<b>241 657 185</b>
<b>Surplus for the year</b>		<b>358 168 750</b>	<b>241 657 185</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Statement of Changes in Net Assets**

<b>Figures in Rand</b>	<b>Accumulated surplus</b>	<b>Total net assets</b>
<b>Balance at 01 July 2012</b>	<b>1 624 431 829</b>	<b>1 624 431 829</b>
Changes in net assets		
Surplus for the year	241 657 185	241 657 185
Correction of error	(41 956 320)	(41 956 320)
<b>Total changes</b>	<b>199 700 865</b>	<b>199 700 865</b>
<b>Balance at 01 July 2013</b>	<b>1 824 132 694</b>	<b>1 824 132 694</b>
Changes in net assets		
Surplus for the year	358 168 750	358 168 750
<b>Total changes</b>	<b>358 168 750</b>	<b>358 168 750</b>
<b>Balance at 30 June 2014</b>	<b>2 182 301 444</b>	<b>2 182 301 444</b>

Note(s)

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Grants		664 584 167	542 525 860
Service charges		314 783 607	241 449 229
Interest received		32 566 581	1 928 978
Other receipts	57	8 572 720	87 216 077
		1 020 507 075	873 120 144
<b>Payments</b>			
Employee costs		(242 287 020)	(243 131 572)
Remuneration of councillors		(7 784 081)	(7 848 535)
Finance costs		(15 983 120)	(16 959 930)
Suppliers paid		(128 089 439)	(92 998 054)
Other payments	55	(201 167 636)	(287 653 540)
		(595 311 296)	(648 591 631)
<b>Net cash flows from operating activities</b>	38	425 195 779	224 528 513
<b>Cash flows from investing activities</b>			
Purchase of property plant and equipment	10	(347 243 125)	(201 807 817)
Non cashflow transfers	10	32 571 951	-
Purchase of other intangible assets	11	(2 469 151)	(384 130)
Decrease / (Increase) in long-term receivables		-	(22 203)
<b>Net cash flows from Investing activities</b>		(317 140 325)	(202 214 150)
<b>Cash flows from financing activities</b>			
New loans raised		-	7 294 544
Loans repaid		(19 284 745)	(16 371 053)
<b>Net cash flows from financing activities</b>		(19 284 745)	(9 076 509)
<b>Net Increase/(decrease) in cash and cash equivalents</b>		88 770 709	13 237 854
Cash and cash equivalents at the beginning of the year		68 557 188	55 319 334
<b>Cash and cash equivalents at the end of the year</b>	8	157 327 897	68 557 188

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures In Rand</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
Revenue from exchange transactions						
Service charges	340 282 55	347 298	340 629 853	314 142 466	25 846 246	
Rental of facilities and equipment	2 091 067	-	2 091 067	2 193 961	(102 894)	
Interest owned - external investments	-	3 000 000	3 000 000	10 597 167	(7 597 167)	
Other income	3 963 419	593 518	4 556 937	6 378 760	(1 277 515)	
Interest earned - outstanding debtors	2 588 139	-	2 588 139	21 969 414	(19 381 275)	
<b>Total revenue from exchange transactions</b>	<b>348 925 180</b>	<b>3 940 816</b>	<b>352 865 996</b>	<b>355 922 910</b>	<b>(3 056 914)</b>	
Revenue from non-exchange transactions						
Taxation revenue						
Government grants & subsidies	316 272 560	363 357 927	679 630 487	684 584 167	15 046 320	
<b>Total revenue</b>	<b>665 197 740</b>	<b>367 298 743</b>	<b>1 032 496 483</b>	<b>1 017 827 290</b>	<b>14 669 193</b>	
<b>Expenditure</b>						
Employee related costs	224 361 175	21 760 684	246 121 859	242 387 020	3 834 839	
Remuneration of councillors	7 646 746	1 201 427	8 848 173	7 784 081	1 064 092	
Depreciation and amortisation	69 537 099	-	69 537 099	67 428 260	2 108 839	
Impairment loss/ Reversal of impairments	26 379 155	-	26 379 155	4 664 957	21 714 198	
Finance costs	19 000 000	(2 000 000)	17 000 000	15 983 120	1 247 844	
Repairs and maintenance	29 000 000	(5 164 977)	23 835 023	16 967 534	6 867 489	
Bulk purchases	42 624 000	6 009 595	48 633 595	52 126 623	(3 493 027)	
Contracted Services	17 174 074	3 760 926	20 935 000	19 579 390	1 355 610	
Grants and subsidies paid	66 503 425	67 866 556	134 389 981	118 990 550	15 379 431	
Loss on disposal of assets	-	-	-	31 069	(31 069)	
General Expenses	110 094 030	-	127 133 195	116 495 725	10 637 470	
<b>Total expenditure</b>	<b>612 319 704</b>	<b>93 434 211</b>	<b>722 793 080</b>	<b>662 338 327</b>	<b>60 454 753</b>	
<b>Surplus before taxation</b>	<b>52 878 036</b>	<b>(89 493 211)</b>	<b>309 703 403</b>	<b>358 168 749</b>	<b>(63 511 666)</b>	

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	9 587 200	-	9 587 200	8 069 416	1 517 784	
Receivables from exchange transactions	77 808 754	20 965 196	98 773 950	132 427 928	(33 653 978)	
Receivables from non-exchange transactions	-	-	-	9 769 194	(9 769 194)	
VAT receivable	-	-	-	15 020 053	(15 020 053)	
Current portion of long-term receivables	1 522 486	-	1 522 486	32 042	1 490 444	
Operating lease receivables	-	-	-	57 450	(57 450)	
Cash and cash equivalents	61 446 000	10 705 000	72 151 000	160 671 371	(88 520 371)	
	150 364 440	31 670 196	182 034 636	326 047 454	(144 012 818)	
<b>Non-Current Assets</b>						
Property, Plant and Equipment	2 072 629 650	180 353 350	2 252 983 000	2 277 633 784	(19 650 784)	
Intangible Assets	135 000	10 675 000	10 810 000	9 599 571	1 210 429	
Investment Property	-	-	25 000 000	25 000 000	-	
Long-term receivables	10 283 340	10 212 660	20 496 000	7 404	20 488 596	
Non-current investments	-	-	-	100	(100)	
	2 083 047 990	201 241 010	2 309 289 000	2 307 240 859	(2 408 141)	
<b>Total Assets</b>	<b>2 233 412 430</b>	<b>232 911 206</b>	<b>2 491 323 636</b>	<b>2 633 288 312</b>	<b>(141 964 676)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables	395 149 300	(313 224 300)	81 925 000	156 379 327	(74 454 327)	
Provisions	4 164 000	-	4 164 000	1 476 376	2 687 624	
Consumer deposits	20 369 000	-	20 369 000	19 724 662	644 338	
Unspent conditional grants and receipts	-	-	-	48 333 086	(48 333 086)	
Current portion of long term liabilities	-	-	-	21 630 386	(21 630 386)	
Bank overdraft	-	-	-	3 343 474	(3 343 474)	
	419 682 300	(313 224 300)	106 458 000	250 946 713	(144 488 713)	
<b>Non-Current Liabilities</b>						
Non-current provisions	26 355 170	2 000 030	28 355 200	11 076 109	17 279 091	
Retirement Benefits Liabilities	-	-	-	23 599 788	(23 599 788)	
Long term liabilities	223 798 892	(86 999 892)	136 799 000	165 364 259	(28 565 259)	
	250 154 062	(84 999 862)	165 154 200	200 040 156	(34 885 956)	
<b>Total Liabilities</b>	<b>669 836 362</b>	<b>(398 224 162)</b>	<b>271 612 200</b>	<b>450 986 869</b>	<b>(179 374 669)</b>	
<b>Net Assets</b>	<b>1 563 576 068</b>	<b>631 135 368</b>	<b>2 219 711 436</b>	<b>2 182 301 444</b>	<b>37 409 992</b>	

**Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

**Statement of Comparison of Budget and Actual Amounts****Budget on Cash Basis**

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Reserves</b>						
Accumulated surplus	1 548 149 878	631 135 368	2 204 285 246	2 182 301 444	37 409 992	
<b>Total Net Assets</b>	<b>1 548 149 878</b>	<b>631 135 368</b>	<b>2 204 285 246</b>	<b>2 182 301 444</b>	<b>37 409 992</b>	

**UGU DISTRICT MUNICIPALITY**  
**BUDGET STATEMENT FOR THE YEAR ENDED 30 JUNE 2014**

30 Jun 14

Description	Original Total Budget	Budget Adjustments	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget									
<b>CASH FLOW</b>																		
<b>Cash Flows from/(used in) Operating Activities</b>																		
Grants	310 647 560	(310 647 560)	-	332 644 550	667 759 497	-	-	201%	216%									
Public Contributions and Donations	264 000 000	(264 000 000)	-	276 000 000	314 783 607	-	-	0%	0%									
Service Charges	-	-	-	3 000 000	32 566 501	(29 566 501)	114%	119%										
Interest Received	-	-	-	27 167 067	6 572 720	(242 287 020)	32%	100%										
Other Receipts	-	-	-	224 361 000	246 121 860	8 848 173	-	-										
Employee Related Costs	7 646 746	(224 361 000)	-	(19 000 000)	17 000 000	(7 784 081)	-86%	-108%										
Remuneration of Councillors	19 000 000	(7 646 746)	-	19 900 000	15 983 120	(15 983 120)	-94%	-102%										
Interest Paid	198 900 701	(198 900 701)	-	235 736 684	(128 080 439)	383 817 103	-54%	-84%										
Suppliers Paid	66 495 000	(66 495 000)	-	80 336 007	(204 343 557)	284 679 664	-25%	-307%										
Other Payments	-	-	-	-	-	-	-	-										
Cash Flows from/(used in) Investing Activities	-	-	-	1 936 395 000	(347 242 535)	2 283 637 535	-16%	-22%										
Purchase of Property, Plant and Equipment	1 569 467 000	368 928 000	-	-	(2 469 151)	2 459 151	100%	100%										
Purchase of Intangible Assets	-	-	-	-	-	(32 571 951)	0%	0%										
Proceeds on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	100%	100%										
Non cash flow transfers	-	-	-	-	-	-	0%	0%										
Decrease / (Increase) in Non-current Investments	-	-	-	-	-	-	0%	0%										
Decrease / (Increase) in Long-term Receivables	-	-	-	-	-	-	0%	0%										
Cash Flows from/(used in) Financing Activities	-	-	-	-	-	-	-	-										
New Loans raised	-	-	-	-	-	-	-	-										
Loans repaid	-	-	-	-	-	-	-	-										
Cash and Cash Equivalents at End of the Year	2 650 718 007	(724 323 007)	-	3 163 269 321	66 779 709	-	3%	3%										
	-	-	-	-	-	-	-	-										

# **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1. Basis of presentation**

The annual financial statements have been prepared on the accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise. The annual financial statements are presented in South African rand, rounded off to the nearest rand which is the municipality's functional currency.

These annual financial statements have been prepared in accordance with the effective standards of Generally Recognised Accounting Principles (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

#### **1.1 Changes in accounting policy and comparability**

Accounting policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2013 and 30 June 2014 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out in the relevant Notes to the annual financial statements.

The municipality changes an accounting policy only if the change:

- Is required by a Standard of GRAP; or
- Results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions, on the municipality's financial position, financial performance or cash flow.

#### **1.2 Critical judgements, estimations and assumptions**

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in annual financial statements:

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.2 Critical judgements, estimations and assumptions (continued)**

#### **Revenue recognition**

Accounting policy 9.2 on revenue from exchange transactions and accounting policy 9.3 on revenue from non-exchange transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (Revenue from exchange transactions) and GAMAP 9 (Revenue) as far as revenue from non-exchange transactions is concerned (see basis of preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### **Financial assets and liabilities**

The classification of financial assets and liabilities, into categories, is based on judgement. Accounting policy 6.1 on financial assets classification and accounting policy 6.2 on financial liabilities classification describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104 (Financial Instruments – Presentation) and GRAP 104 (Financial Instruments – Recognition and Measurement).

#### **Impairment of financial assets**

Accounting policy 6.4 on impairment of financial assets describes the process followed to determine the value with which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104 (Financial Instruments – Recognition and Measurement) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period.

The management of the municipality is satisfied that impairment of financial assets recorded during the year is appropriate.

- **Impairment of trade receivables:**  
The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

#### **Useful lives of property, plant and equipment and intangible assets**

As described in accounting policies 3.3 and 4.2, the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

#### **Water inventory**

The estimation of the water inventory in reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Refer to accounting policy, paragraph 7.2.2.

#### **Defined benefit plan liabilities**

# **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.2 Critical judgements, estimations and assumptions (continued)**

As described in accounting policy 11.2, employee benefits –post-employment benefits, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are post-retirement health benefit obligations and long-service awards. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in notes to the annual financial statements.

#### **Provisions and contingent liabilities**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

#### **1.3 Controlled entities**

Controlled entities are entities, including special purpose entities, over which the municipality has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the municipality controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the municipality. They are de-consolidated from the date on which control ceases. Controlled entities are identified after evaluation of power and benefit indicators as described in GRAP 6.

Inter-entity transactions, balances and unrealised gains on transactions between the municipality and the subsidiaries are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the municipality.

#### **1.4 Property plant and equipment**

##### **Initial recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially recognised at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

# **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.4 Property plant and equipment (continued)**

#### **Subsequent measurement**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment is measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

#### **Depreciation**

Depreciation on assets other than land is calculated on cost, using the straight-line method, to allocate the cost over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

Item	Average useful life
<b>Buildings</b>	
• Improvements	5 to 30 years
<b>Infrastructure</b>	
• Security measures	7 to 25 Years
• Sewerage	7 to 60 Years
• Water	5 to 100 Years
<b>Community</b>	
• Sports facilities	5 to 30 years
• Other facilities	5 to 30 years
<b>Other</b>	
• Computer equipment	3 to 10 years
• Furniture and Fittings	3 to 15 years
• Motor vehicles	4 to 15 years
• Office equipment	3 to 15 years
• Plant and equipment	2 to 15 years
• Specialist vehicles	10 to 15 years
• Other assets	5 to 30 years

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

#### **Land**

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

#### **Infrastructure assets.**

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

#### **Finance leases**

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as property, plant and equipment controlled by the municipality or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

# **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.4 Property plant and equipment (continued)**

#### **Derecognition of property, plant and equipment.**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals and are included in the statement of financial performance as a gain or loss on disposal of property, plant and equipment.

### **1.5 Intangible assets**

#### **Initial recognition**

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its statement of financial position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an Intangible Asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

The cost of an intangible asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

#### **Subsequent measurement, amortisation and impairment**

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

Where intangible assets are deemed to have indefinite useful lives, such intangible assets are not amortised. However, such intangible assets are subject to an annual impairment test.

Amortisation only commences when the asset is available for use, unless stated otherwise. The amortisation rates are based on the following estimated useful lives:

Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. The impairment loss is the difference between the carrying amount and the recoverable service amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the statement of financial performance.

<b>Item</b>	<b>Useful life</b>
Computer software	2 to 5 years
Rights and servitudes	Infinitive

# **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.5 Intangible assets (continued)**

#### **Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the proceeds of disposal and the carrying value and is recognised in the statement of financial performance.

### **1.6 Impairment of assets**

The municipality classifies all assets held with the primary objective of generating a commercial return as cash generating assets. All other assets are classified as non-cash generating assets.

#### **Impairment of cash-generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use. The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- On a pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

#### **Impairment of non-cash-generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.6 Impairment of assets (continued)**

- On a pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

### **1.7 Financial Instruments**

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities or residual interests in accordance with the substance of the contractual agreement.

#### **Initial recognition**

Financial assets and Financial Liabilities are recognised on the municipality's statement of financial position when it becomes party to the contractual provisions of the instrument.

The municipality does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### **Fair value methods and assumptions**

The fair values of Financial Instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices.
- If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

#### **The effective Interest rate method**

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the Financial Instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

#### **Amortised cost**

Amortised cost is the amount at which the financial asset or Financial Liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.7 Financial Instruments (continued)**

#### **1.12.1 Financial assets – Classification**

A financial asset is any asset that is a cash or contractual right to receive cash.

The financial assets of the municipality are classified as follows:

- **Financial assets at amortised cost** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial assets at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition, financial assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.
- **Financial assets at fair value** are financial assets that meet either of the following conditions:
  - (i) Derivatives;
  - (ii) Combined instruments that are designated at fair value;
  - (iii) Instruments held for trading;
  - (iv) Non-derivative financial instruments with fixed or determinable payments that are designated at fair value at initial recognition; or
  - (v) Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.
- **Financial assets at cost** are investments in residual interest that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash and cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets at fair value.

#### **1.12.2 Financial liabilities - classification.**

A financial liability is a contractual obligation to deliver cash or another financial assets to another entity.

There are three main categories of financial liabilities, the classification determining how they are measured.

Financial liabilities may be measured at:

- (i) Financial liabilities measured at fair value;
- (ii) Financial liabilities measured at amortised cost; or
- (iii) Financial liabilities measured at cost

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Accounting Policies**

---

#### **1.7 Financial Instruments (continued)**

Financial liabilities that are measured at fair value are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short term profiteering or are derivatives).

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

#### **1.12.3 Initial and subsequent measurement**

##### **Financial assets:**

###### **Financial assets measured at amortised cost**

Financial assets at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less any impairment, with interest recognised on an effective yield basis.

Trade and other receivables (excluding value added taxation, prepayments and operating lease receivables), loans to municipal entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as financial assets at amortised cost.

###### **Financial assets measured at fair value**

Financial assets at fair value are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

##### **Financial liabilities:**

###### **Financial liabilities measured at fair value**

Financial liabilities at fair value are stated at fair value, with any resulted gain or loss recognised in the statement of financial performance.

###### **Financial liabilities held at amortised cost**

Any other financial liabilities are classified as other financial liabilities (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest-bearing debt including finance lease liabilities, non-interest-bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the statement of financial performance by applying the effective interest rate.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Accounting Policies**

---

#### **1.7 Financial instruments (continued)**

##### **1.12.4 Impairment of financial assets**

Financial assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the trade receivables' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term trade receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as recoverable.

The carrying amount of the Financial asset is reduced by the impairment loss directly for all Financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an provision for doubtful debtors account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance.

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

##### **1.12.5 Derecognition**

###### **Financial assets**

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expires or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when council approves the write-off of financial assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

###### **Financial liabilities**

The municipality derecognises financial liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, in the statement of financial performance.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.8 Inventories**

#### **Initial recognition**

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

#### **Subsequent measurement.**

##### **Consumable stores, maintenance stores, and water:**

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

##### **Water inventory:**

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the First In First Out Method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### **1.9 Non-current assets held for sale and disposal groups**

#### **Initial recognition**

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Accounting Policies**

---

#### **1.9 Non-current assets held for sale and disposal groups (continued)**

##### **Subsequent measurement**

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held-for-sale, or while it is part of a disposal group classified as held-for-sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale are recognised in surplus or deficit.

The gain or loss on the eventual sale of non-current assets held-for-sale is included in the statement of financial performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held-for-sale is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

#### **1.10 Revenue recognition**

Revenue is derived from a variety of sources which include rates levied, grants from other spheres of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

##### **1.14.2 Revenue from exchange transactions**

###### **Services charges**

Service charges are levied in terms of approved tariffs.

Service charges from water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by the Council, and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Accounting Policies**

---

#### **1.10 Revenue recognition (continued)**

##### **Finance Income**

Interest earned on investments is recognised in the statement of financial performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the statement of financial performance:

- Interest earned on unspent conditional grants is allocated directly to the creditor. Unspent conditional grants, if the grant conditions indicate that interest is payable to the funder.

##### **Rentals received**

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

##### **Tariff charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

#### **1.14.3 Revenue from non-exchange transactions**

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

##### **Government grants and receipts**

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Accounting Policies**

---

#### **Revenue from non-exchange transactions (continued)**

##### **Public contributions**

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired from non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

##### **Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

#### **1.11 Provisions**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Accounting Policies**

---

#### **1.12 Employee benefits**

##### **1.17.1 Short-term employee benefits**

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as an accrual in the statement of financial position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Accounting Policies**

---

#### **1.12 Employee benefits (continued)**

##### **1.17.2 Post-employment benefits**

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

###### **Defined contribution plans**

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods. The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the statement of financial performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

###### **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

###### **Post-retirement health care benefits:**

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all medical aid funds, with which the municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the corridor Method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

###### **Long-service allowance:**

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the long-service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

###### **Defined benefit pension plans**

The municipality has an obligation to provide post-retirement pension benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.12 Employee benefits (continued)**

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

### **1.13 Leases**

#### **Classification**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

#### **1.18.1 The municipality as lessee**

##### **Finance leases**

Where the municipality enters into a finance lease, property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the statement of financial position as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

##### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

# **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.13 Leases (continued)**

#### **Operating leases**

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a Straight-line Basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **1.14 Grants in aid**

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

### **1.15 Value added tax**

The Municipality accounts for value added tax on the payments basis in accordance with section 15(2)(a) of the value-added tax act (Act No 89 of 1991).

The entity accounts for value added tax on the invoice basis in accordance with section 15(1) of the value- added tax act (Act No 89 of 1991).

### **1.16 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to Unauthorised expenditure is accounted for as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the council, it is treated as an asset until it is recovered or written off as irrecoverable.

### **1.17 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular expenditure excludes Unauthorised Expenditure. Irregular expenditure is accounted for as an expense in the statement of financial performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the council, it is treated as an asset until it is recovered or written off as irrecoverable.

### **1.18 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the council, it is treated as an asset until it is recovered or written off as irrecoverable.

# **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.19 Contingent assets and contingent liabilities**

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in notes to the annual financial statements.

### **1.20 Commitments**

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

### **1.21 Related parties**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the municipal manager, chief financial officer and all other managers reporting directly to the municipal manager or as designated by the municipal manager.

### **1.22 Events after the reporting period**

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting period have been disclosed in notes to the annual financial statements.

### **1.23 Comparative figures**

#### **Current year comparatives**

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the annual financial statements.

#### **Prior year comparatives**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

#### **Budget information**

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the council for the preparation of these annual financial statements. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the annual financial statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the council at the beginning and during the year following a period of consultation with the public as part of the integrated development plan.

### **1.24 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

---

### **1.24 Investment property (continued)**

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

### **1.25 Investments**

#### **1.26 Standards, amendments to standards and Interpretations issued**

The following GRAP standard has been issued but is not yet effective and has been early adopted by the municipality:

- GRAP 104 Financial Instruments – issued October 2009

GRAP 104 will be effective for the period starting after 1 April 2012. The municipality elected to adopt the standard during the 2010/11 financial year.

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the municipality:

- Segment Reporting – issued March 2005
- Related Party Disclosures – revised
- Impairment of Non-cash-generating Assets – issued March 2009
- Revenue from Non-Exchange Transactions (Taxes and Transfers) – issued February 2008
- Presentation of Budget Information in Financial Statements – issued November 2007
- Employee Benefits – issued December 2009
- Impairment of Cash-generating Assets – issued March 2009
- Heritage Assets – issued July 2008
- Transfers between Entities under common control – issued November 2010
- Transfers between Entities not under common control – issued November 2010
- Mergers – issued November 2010

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance, who announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26 and GRAP 103 will be effective for the period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance. This date is not currently available.

The ASB Directive 5, paragraph 29, sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Accounting Policies**

---

#### **1.26 Standards, amendments to standards and Interpretations issued (continued)**

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate Accounting Policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued but not yet effective, in developing appropriate Accounting Policies dealing with the following transactions, but have not early adopted these Standards:

- Impairment of Non-cash-generating Assets (GRAP 21 – issued March 2009)
- Revenue from Non-exchange Transactions (GRAP 23 – issued February 2008)
- Impairment of Cash-generating Assets (GRAP 26 – issued March 2009)
- Financial Instruments (GRAP 104 – issued October 2009)

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014                    2013

#### **2. Inventories**

Inventories comprise:

Consumable stores	1 332 919	915 390
Maintenance materials	6 287 305	4 248 259
Water	438 535	1 733 675
Other goods held for resale	10 657	41 465
	<b>8 069 416</b>	<b>6 938 789</b>

The municipality has identified and measured all Inventory in terms of GRAP 12 for the financial year ended 30 June 2014. The balances of the Inventories have accordingly been restated retrospectively.

Inventories are held for own use with the result that no write downs of Inventory to net realisable value are required.

The cost of water production for the year amounted to R1,78 per kilolitre (2013: R1,43 per kilolitre).

No inventories have been pledged as collateral for liabilities of the municipality.

#### **3. Operating lease receivables and payables**

##### **Operating lease receivables**

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of non-cancellable Operating leases the following assets have been recognised:

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>3. Operating lease receivables and payables (continued)</b>		
Balance at beginning of year	43 785	-
Operating lease revenue recorded	889 586	674 217
Operating lease revenue from smoothing	(875 921)	(630 433)
<b>Total Operating Lease Assets</b>	<b>57 450</b>	<b>43 784</b>

#### **Leasing Arrangements**

##### **The Municipality as Lessor:**

Operating leases relate to property owned by the municipality with lease terms of between 1 to 3 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

##### **Amounts receivable under operating leases**

At the reporting date the following minimum lease payments were receivable under non-cancellable operating leases for property, plant and equipment, which are receivable as follows:

Up to 1 year	934 117	875 921
2 to 5 years	228 287	1 162 405
<b>Total</b>	<b>1 162 404</b>	<b>2 038 326</b>

The impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has been a decrease in current year income of R57 450 (2013: R43 785).

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

##### **Operating lease liabilities**

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014                    2013

#### **3. Operating lease receivables and payables (continued)**

Balance at beginning of year	34 011	-
Operating lease expenses recorded	686 812	363 151
Operating lease payments from smoothing	(661 421)	(329 140)
<b>Total Operating Lease Liabilities</b>	<b>59 402</b>	<b>34 011</b>

#### **Leasing arrangements**

##### **The municipality as lessee**

Operating leases relate to property, plant and equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

##### **Amounts payable under Operating Leases**

At the reporting date the municipality had outstanding commitments under non-cancellable operating leases for property, plant and equipment, which fall due as follows:

Property Plant and Equipment:	1 455 476	1 538 494
Within one year	849 670	597 154
In the second to third years, inclusive	477 272	941 340
Over three years	128 534	-
<b>Total operating lease arrangements</b>	<b>1 455 476</b>	<b>1 538 494</b>

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	686 812	363 151
<b>Total operating lease expenses</b>	<b>686 812</b>	<b>363 151</b>

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office equipment

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:

- (i) The equipment shall remain the property of the lessor.
- (ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment.
- (iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.
- (iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>4. Receivables from non-exchange transactions</b>		
Payments made in advance	1 920 995	63 406
Government subsidy claims	236 950	150 503
Insurance claims	122 367	122 367
Municipal entities	66 846	50 979
Sundry deposits	893 075	1 003 908
Sundry debtors	6 528 961	7 166 331
	<b>9 769 194</b>	<b>8 557 494</b>

The average credit period for government grants and subsidies is dependent on the government department involved and the nature of the claim. No interest is charged on outstanding government grants and subsidies. The subsidies are payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

Insurance claims are amounts which are claimable in terms of the insurance contract entered into by the municipality. The average waiting period depends on the nature of the claim. No interest is charged on outstanding insurance claims.

Sundry receivables are in respect of debts outstanding at year-end on normal business transactions entered into by the municipality.

The average credit period for receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of receivables.

The municipality does not hold deposits or other security for its receivables.

None of the receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of receivables approximate their fair values.

#### **Receivables from non-exchange transactions past due but not impaired**

As at 30 June receivables of R19 772 929 (2013: R8 580 535) were past due but not impaired. The age analysis of these receivables are as follows:

+ 90 days	19 772 929	8 580 535
-----------	------------	-----------

#### **Reconciliation of provision for impairment of receivables from non-exchange transactions**

Opening balance	4 478 749	3 575 783
-----------------	-----------	-----------

The Provision for Impairment on receivables exists predominantly due to the possibility that these amounts may not be recovered. The receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to most of these being sundry in nature.

The following Loans and Receivables are included in the total amount of the provision for impairment:

Government Subsidy Claims	1 613 200	1 613 200
Sundry Debtors	2 865 549	1 962 583
<b>Total provision for impairment on receivables from non-exchange transactions</b>	<b>4 478 749</b>	<b>3 575 783</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014                    2013

#### **5. VAT receivable**

VAT receivable	15 020 053	23 240 458
----------------	------------	------------

VAT is payable on the payments basis. Once payment is received from customers/receivables, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

#### **6. Receivables from exchange transactions**

<b>Gross</b>		
Water rates	33 776 121	35 474 464
Water	133 667 691	108 904 320
Sewerage	52 276 208	40 515 211
Other trade	5 435 946	8 070 415
	<b>225 155 966</b>	<b>192 964 410</b>
<b>Less: allowance for impairment</b>		
Water rates	(20 865 279)	(22 167 383)
Water	(56 939 832)	(48 868 401)
Sewerage	(11 224 857)	(16 694 009)
Other trade	(3 698 070)	(3 698 070)
	<b>(92 728 038)</b>	<b>(91 427 863)</b>
<b>Net balance</b>		
Water rates	12 910 842	13 307 081
Water	76 727 859	60 035 919
Sewerage	41 051 351	23 821 202
Other trade	1 737 876	4 372 345
	<b>132 427 928</b>	<b>101 536 547</b>

At 30 June 2014, the Municipality is owed R10 368 997 (30 June 2013: R7 869 220) by national and provincial government.

The municipality did not pledge any of its trade receivables as security for borrowing purposes.

<b>Water rates</b>		
Current (0 -30 days)	2 808 935	1 102 260
31 - 60 days	3 910	22 578
61 - 90 days	16 310	25 940
+ 90 days	10 081 687	12 156 303
	<b>12 910 842</b>	<b>13 307 081</b>

<b>Water</b>		
Current (0 -30 days)	22 884 008	23 709 106
31 - 60 days	3 689 465	4 279 707
61 - 90 days	4 083 216	217 173
+ 90 days	46 071 170	31 829 933
	<b>76 727 859</b>	<b>60 035 919</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Sewerage</b>		
Current (0 -30 days)	6 885 203	13 967 175
31 - 60 days	2 099 131	2 173 643
61 - 90 days	1 971 654	1 273 119
+ 90 days	30 095 363	6 407 265
	<b>41 051 351</b>	<b>23 821 202</b>
<b>Other trade</b>		
+ 90 days	1 737 876	4 372 345

The management of the municipality is of the opinion that the carrying trade value of receivables approximate their fair values.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Domestic</b>		
Current (0 -30 days)	21 621 161	35 173 209
31 - 60 days	5 815 882	4 758 000
61 - 90 days	6 261 244	4 694 645
+ 90 days	124 848 424	99 614 337
<b>Less: Allowance for impairment</b>	<b>158 546 711</b>	<b>144 240 191</b>
	<b>(52 604 715)</b>	<b>(75 035 443)</b>
	<b>105 941 996</b>	<b>69 204 748</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	9 836 378	9 034 100
31 - 60 days	2 515 289	2 925 828
61 - 90 days	1 722 601	1 515 436
+ 90 days	22 032 027	19 309 219
<b>Less: Allowance for impairment</b>	<b>36 106 295</b>	<b>32 784 583</b>
	<b>(35 319 990)</b>	<b>(12 694 349)</b>
	<b>786 305</b>	<b>20 090 234</b>
<b>National and provincial government</b>		
Current (0 -30 days)	3 931 693	3 139 280
31 - 60 days	1 421 887	800 173
61 - 90 days	1 270 553	398 296
+ 90 days	3 744 864	3 531 471
	<b>10 368 997</b>	<b>7 869 220</b>
<b>Other</b>		
+ 90 days	5 435 946	8 070 414
<b>Less: Allowance for impairment</b>	<b>5 435 946</b>	<b>8 070 414</b>
	<b>(3 698 070)</b>	<b>(3 698 070)</b>
	<b>1 737 876</b>	<b>4 372 344</b>
<b>Total</b>		
Current (0 -30 days)	54 415 113	47 346 589
31 - 60 days	9 753 057	8 484 001
61 - 90 days	9 254 399	6 608 377
+ 90 days	150 618 525	130 525 442
<b>Less: Allowance for impairment</b>	<b>224 041 094</b>	<b>192 964 409</b>
	<b>(91 613 166)</b>	<b>(91 427 862)</b>
	<b>132 427 928</b>	<b>101 536 547</b>
<b>Amounts written off as uncollectable.</b>		
Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors.		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(92 542 735)	(117 236 461)
Debt impairment written off against allowance	(185 303)	-
Reversal of allowance	-	25 808 598
	<b>(92 728 038)</b>	<b>(91 427 863)</b>

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand

2014 2013

#### 7. Long-term receivables

##### Current portion of long-term receivables

Relocation Loans	28 442	47 824
Sundry Loans	3 600	3 600
	32 042	51 424

##### Non-current portion of long-term receivables

2014

	Gross balances	Provision for impairment	Net balances
	R	R	R
Relocation loans	35 553	-	35 553
Sundry loans	3 893	-	3 893
	39 446	-	39 446
Less: Current portion transferred to current receivables	-	-	(32 042)
Relocation loans	-	-	(28 442)
Sundry loans	-	-	(3 600)
	39 446	-	7 404

2013

	Gross balances	Provision for impairment	Net balances
	R	R	R
Relocation loans	110 623	-	110 623
Sundry loans	11 093	-	11 093
	121 716	-	121 716
Less: Current portion transferred to current receivables	-	-	(51 424)
Relocation loans	-	-	(47 824)
Sundry loans	-	-	(3 600)
	121 716	-	70 292

##### Ageing of long-term receivables

Past due:

+ 120 days

	39 446	121 716
	39 446	121 716

#### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Current investments	8 292 741	12 721 257
Bank balances	152 373 720	59 026 230
Cash float and advancements	4 910	4 910
Bank overdraft	(3 343 474)	(3 195 209)
	157 327 897	68 557 188
Current assets	160 671 371	71 752 397
Current liabilities	(3 343 474)	(3 195 209)
	157 327 897	68 557 188

For the purposes of the Statement of Financial Position and the Cash Flow Statement, cash and cash equivalents include cash-on-hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>8. Cash and cash equivalents (continued)</b>		
<b>Current investment</b>		
Call deposits	7 560 313	12 012 570
Notice deposits	732 428	708 687
	<b>8 292 741</b>	<b>12 721 257</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Absa Bank Ltd - Port Shepstone - Account Number 406 668 6529 (Primary Bank Account):	106 422	417 315	5 568	4 544
Absa Bank Ltd - Port Shepstone - Account Number 406 668 6472 (General Bank Account):	(1 522 481)	470 667	(3 343 474)	(3 195 209)
Absa Bank Ltd - Port Shepstone - Account Number 406 668 6294 (Collection Account):	897 611	742 351	873 676	716 280
Absa Bank Ltd - Port Shepstone - Account Number 406 671 0647 (Consumer Deposits Bank Account):	2 874 066	2 450 698	654 262	519 870
Absa Bank Ltd - Port Shepstone - Account Number 406 660 3763 (Salaries Account):	259 244	136 729	140 753	57 474
Absa Bank Ltd - Port Shepstone - Account Number 406 757 0977 (Sanlam Group Life Account):	4 148 944	4 116 840	4 114 803	4 116 840
Absa Bank Ltd - Port Shepstone - Account Number 406 668 6367 (MIG Project Account):	120 005	379 597	120 005	379 597
Absa Bank Ltd - Port Shepstone - Account Number 407 187 0797 (Disaster Account):	199 600	200 370	199 600	200 370
Absa Bank Ltd - Port Shepstone - Account Number 407 198 0239 (Market Account):	371 245	371 998	371 245	371 998
Absa Bank Ltd - Port Shepstone - Account Number 407 626 7341 (EFF Bank Account):	1 640	2 346	1 640	2 346
Absa Bank Ltd - Port Shepstone - Account Number 407 755 1917 (Conditional Grants Account):	145 892 168	52 656 911	145 892 168	52 656 911
<b>Total</b>	<b>153 348 464</b>	<b>61 945 822</b>	<b>149 030 246</b>	<b>55 831 021</b>

The municipality did not pledge any of its cash and cash equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its cash and cash equivalents.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
-----------------	------	------

#### **9. Investment property**

The Municipality has classified the Ugu Fresh Produce Market as investment property in terms of its asset management policy. The property is situated at Bhabhoi – in the Port Shepstone Town Planning Scheme, lot no 3249 and measures approximately 85 000 square metres. The property was valued in February 2012 by Elliot Properties, a qualified industrialist property specialist (DIPCIS) CCIS, using the income method of valuation. The market offers 18 vendor stalls for retailers, refrigerated storage, a wholesale/agents sales hall, a state-of-the-art multi-purpose ripening facility, an office block, ample parking space, a taxi rank and plenty ablution facilities. The whole facility is secured with 24-hour security guards.

The municipality uses the fair value model to value its investment properties. For the year ending 30 June 2013, Management did not deem it necessary to revalue the market at fair value. This was due to market conditions remaining the same as at the original valuation done in February 2012 and no other material factors that could impact on the value of the property, and the work in progress of the pack house at year end.

	2014		2013			
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	25 000 000	-	25 000 000	25 000 000	-	25 000 000

#### **Reconciliation of investment property - 2014**

	Opening balance	Increase / (decrease) in fair value	Total
Investment property	25 000 000	-	25 000 000

#### **Reconciliation of investment property - 2013**

	Opening balance	Transfers	Increase / (decrease) in fair value	Total
Investment property	-	25 000 000	-	25 000 000

**Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:**

Rental Revenue earned from Investment Property	1 726 310	1 178 664
Direct Operating Expenses	(824 534)	(1 235 603)

**The following assumptions were used:**

Discount rate	- %	11 %
---------------	-----	------

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand

2014 2013

#### 10. Property plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	502 788 824	(18 466 131)	484 322 693	498 928 258	(16 050 710)	482 877 548
Infrastructure	2 654 285 079	(1 006 409 011)	1 647 876 068	2 353 979 118	(961 821 576)	1 392 157 542
Community	118 768 140	(18 678 290)	100 089 850	118 768 140	(13 349 603)	105 418 537
Other	137 033 007	(96 687 834)	40 345 173	128 363 461	(87 481 905)	40 881 556
<b>Total</b>	<b>3 412 875 050</b>	<b>(1 140 241 266)</b>	<b>2 272 633 784</b>	<b>3 100 038 977</b>	<b>(1 078 703 794)</b>	<b>2 021 335 183</b>

#### Reconciliation of property plant and equipment - 2014

	Opening balance	Additions	Transfers	Depreciation	Total
Land and buildings	482 877 548	3 860 566	-	(2 415 421)	484 322 693
Infrastructure	1 392 157 542	333 367 534	(33 061 573)	(44 587 435)	1 647 876 068
Community	105 418 537	-	-	(5 328 687)	100 089 850
Other	40 881 556	11 494 899	489 622	(12 520 904)	40 345 173
	<b>2 021 335 183</b>	<b>348 722 999</b>	<b>(32 571 951)</b>	<b>(64 852 447)</b>	<b>2 272 633 784</b>

#### Reconciliation of property plant and equipment - 2013

	Opening balance	Additions	Transfers	Depreciation	Impairment	Total
Land and buildings	483 239 420	8 500	(175 394)	(194 978)	-	482 877 548
Infrastructure	1 452 101 104	994 801	(16 944 550)	(43 993 813)	-	1 392 157 542
Community	135 316 414	1 046 154	(25 000 000)	(5 311 148)	(632 883)	105 418 537
Other	34 300 032	2 397 989	13 777 199	(9 593 664)	-	40 881 556
	<b>2 104 956 970</b>	<b>4 447 444</b>	<b>(28 342 745)</b>	<b>(59 093 603)</b>	<b>(632 883)</b>	<b>2 021 335 183</b>

#### Gross Carrying Amount of Property, Plant and Equipment that is Fully Depreciated and Still in Use

There are 1620 items of property, plant and equipment that are fully depreciated at year-end and still in use by the municipality.

##### At original cost:

Land and buildings	3 219 387	3 219 387
Other	54 288 062	54 288 062
<b>Gross carrying amount of PPE fully depreciated and still in use</b>	<b>57 507 449</b>	<b>57 507 449</b>

#### Carrying Amount of property, plant and equipment retired from active use and held for disposal

The municipality's obligations under Finance Leases (see Note 18) are secured by the lessors' title to the leased assets. No other assets of the municipality have been pledged as security.

#### Change in estimate – useful life of property, plant and equipment reviewed

There was no change in the estimated useful life in the current and prior year.

#### Owner-occupied property transferred to investment property

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand

2014 2013

#### 10. Property plant and equipment (continued)

The municipality had taken a decision in the 2012/2013 financial year that the buildings of the Ugu Fresh Produce Market, previously owner occupied and carried under the cost model, will from the beginning of the 2012/2013 year be held to earn rentals and should therefore be transferred to investment property carried under the fair value model. Please note that no depreciation was recognised in the prior year as the transfer was done at the beginning of the financial year.

Ugu fresh produce market					
Opening balance				- 25 632 883	
Cost				- 29 120 466	
Accumulated depreciation and impairment losses				- (3 487 583)	
Additions				-	
Depreciation				-	
Impairment loss				- (632 883)	
Carrying amount of transfers				- 25 000 000	
Cost				- 29 120 466	
Accumulated depreciation and impairment losses				- (4 120 466)	
Transfer to investment property (see Note 11)				- (25 000 000)	
Closing balance				-	
Cost				-	
Accumulated depreciation and impairment losses				-	

#### 11. Intangible assets

	2014			2013		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	29 304 877	(22 364 465)	6 940 412	27 065 514	(19 410 133)	7 655 381
Servitudes	2 659 159	-	2 659 159	2 579 372	-	2 579 372
<b>Total</b>	<b>31 964 036</b>	<b>(22 364 465)</b>	<b>9 599 571</b>	<b>29 644 886</b>	<b>(19 410 133)</b>	<b>10 234 753</b>

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	7 655 381	2 389 363	(31 068)	(3 073 264)	6 940 412
Servitudes	2 579 372	79 787	-	-	2 659 159
<b>Total</b>	<b>10 234 753</b>	<b>2 469 150</b>	<b>(31 068)</b>	<b>(3 073 264)</b>	<b>9 599 571</b>

#### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	9 934 448	364 400	(2 643 467)	7 655 381
Servitudes	2 559 642	19 730	-	2 579 372
<b>Total</b>	<b>12 494 090</b>	<b>384 130</b>	<b>(2 643 467)</b>	<b>10 234 753</b>

The amortisation expense has been included in the line item "Depreciation and amortisation" in the Statement of Financial Performance (see note 30).

No intangible assets have been pledged as security for any liabilities of the municipality.

The following restrictions apply to Intangible Assets:

- Financial Software:

(i) The system is non-assignable, non-transferable, and the municipality has no exclusive rights to use the system

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
-----------------	------	------

#### **11. Intangible assets (continued)**

(ii) The system may be used on only one database at any one time.

(iii) The municipality, as the licensee, shall not grant usage of, or distribute, the system in its original or modified form, to a third party for the third party's benefit.

(iv) The municipality has no intellectual property rights to the system.

Refer to Appendix "B" for more detail on Intangible Assets.

#### **Significant Intangible Assets**

Significant Intangible Assets, that did not meet the recognition criteria for Intangible Assets as stipulated in IAS 38 and SIC 32, are the following:

(i) Website Costs incurred during the last two financial years have been expensed and not recognised as

Intangible Assets. The municipality cannot demonstrate how its website will generate probable future economic benefits.

#### **Intangible assets with Indefinite useful lives**

The following classes of Intangible Assets are not amortised as they are regarded as having indefinite useful lives:

Carrying value of servitudes: sewerage distribution	1 486 723	1 486 723
Carrying value of servitudes: water reticulation	1 172 435	1 093 079
<b>Total carrying amount of intangible assets with indefinite useful lives</b>	<b>2 659 158</b>	<b>2 579 802</b>

Servitudes are regarded as having indefinite useful lives as they are registered permanently, the agreements not having a maturing date.

#### **12. Investments**

Unlisted	Holding 2014	Holding 2013
Investment in municipal entities - at cost	100.00 %	100.00 %
	100	100
<b>Total Non-current Investments</b>	<b>100</b>	<b>100</b>
Council's valuation of unlisted investments		
Investment in municipal entities	100	100
	100	100

The municipality exercises control in the following company, located and commencing its operations on 1 July 2009 in the Ugu District Municipal area, where the value of the investment is considered to be R100, being the issued share capital:

#### **Ugu South Coast Tourism (Pty) Ltd:**

Issued share capital (R)	100	100
Percentage shareholding	100 %	100 %
Grant allocated to municipal Entity (R)	10 517 850	10 017 000
Management's valuation of the investment in the municipal entity (R)	100	100

All thirteen members serving on the board of directors of the municipal entity are nominated by the municipality's executive committee (13/13 = 100.00%).

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

	2014	2013				
<b>13. Payables</b>						
Trade payables	19 712 204	18 506 575				
Retentions	47 272 573	35 579 377				
Staff leave accrued	17 457 961	15 268 299				
Staff bonuses	9 664 818	9 248 785				
Projects	4 410 025	4 410 025				
Other creditors	57 861 746	52 540 094				
	<b>156 379 327</b>	<b>135 553 155</b>				
<b>14. Consumer deposits</b>						
Water	19 724 662	19 379 146				
<b>Total</b>	<b>19 724 662</b>	<b>19 379 146</b>				
Guarantees held in lieu of water deposits	495 780	495 780				
<b>15. Unspent conditional grants and receipts</b>						
Unspent conditional grants and receipts						
National government grants	19 657 704	20 560 634				
Provincial government grants	26 039 881	26 784 693				
Other spheres of government	2 635 501	1 113 200				
Public contributions	-	3 049 889				
<b>Total conditional grants and receipts</b>	<b>48 333 086</b>	<b>51 508 416</b>				
Refer to appendix "F" for more detail on conditional grants.						
<b>16. Provisions</b>						
Reconciliation of provisions 2014						
	Opening Balance	Contributions	Total			
Performance Bonuses	854 208	27 624	881 832			
Current Portion of Non-Current Provisions	931 680	(337 136)	594 544			
	<b>1 785 888</b>	<b>(309 512)</b>	<b>1 476 376</b>			
Reconciliation of provisions 2013						
	Opening Balance	Difference	Transfer from non-current	Utilisation	Increase / (decrease) in contributions to provision	Total
Performance bonuses	683 576	854 208	-	-	(683 576)	854 208
Current portion of post-retirement medical aid benefits liability	771 816	(854 208)	854 208	(771 816)	-	-
Current portion of non-current provisions	710 121	-	931 680	(710 121)	-	931 680
	<b>2 165 513</b>	<b>-</b>	<b>1 785 888</b>	<b>(1 481 937)</b>	<b>(683 576)</b>	<b>1 785 888</b>

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>17. Long term liabilities</b>		
Annuity loans	180 426 363	196 417 374
Finance lease liabilities	6 568 282	6 938 939
<b>Sub-total</b>	<b>186 994 645</b>	<b>203 356 313</b>
Less: current portion	(21 630 386)	(16 909 778)
Annuity loans	(18 268 969)	(14 610 464)
Finance lease liabilities	(3 361 417)	(2 299 314)
<b>Total</b>	<b>165 364 259</b>	<b>186 446 535</b>

Annuity loans are repaid over periods varying from 1 to 16 (2013: 1 to 17) years and at interest rates varying from 2,65% to 11,51% (2013: 11,51% to 11,00%) per annum. Annuity loans are not secured.

Finance lease liabilities relates to vehicles with lease term periods of 2 (2013: 3) years. The effective interest rate on finance leases is 6,6% (2013: 6,6%). Capitalised lease liabilities are secured over the items of vehicles leased.

Refer to Appendix "A" for more detail on external loans.

#### Obligations under Finance lease liabilities

##### The municipality as lessee

Finance leases relate to property, plant and equipment with lease terms not more than 2 years (2013: 3 years).

The effective interest rate on finance leases is 6,6% (2013: 6,6%).

The obligations under finance leases are as follows:

Amounts payable under finance leases:	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	2014	2013
Within one year	3 685 138	2 690 721	3 685 138	2 690 721
In the second to third years, inclusive	3 161 125	4 940 297	3 161 125	4 940 297
	6 846 263	7 631 018	6 846 263	7 631 018
Less: Future finance charges	(421 061)	(692 079)	(421 061)	(692 079)
<b>Total</b>	<b>6 425 202</b>	<b>6 938 939</b>	<b>6 425 202</b>	<b>6 938 939</b>
Less: current portion	-	-	(3 361 417)	(2 299 314)
<b>Non-current portion</b>	<b>6 425 202</b>	<b>6 938 939</b>	<b>3 063 785</b>	<b>4 639 625</b>

### 18. Retirement benefit liabilities

#### Post-retirement health care benefits liability

Balance at beginning of year	21 375 642	18 959 976
Contributions to provision	3 105 978	3 269 874
Balance at end of year	24 481 620	22 229 850
Transfer to current provisions	(881 832)	(854 208)
<b>Total</b>	<b>23 599 788</b>	<b>21 375 642</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014                    2013

#### **18. Retirement benefit liabilities (continued)**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member is entitled to continue as a member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2014 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The members of the post-employment health care benefit plan are made up as follows:

In-service members (employees)	494	494
In-service non-members (employees)	-	-
Continuation members	49	48
<b>Total</b>	<b>543</b>	<b>542</b>

The unfunded liability in respect of past service has been estimated as follows:

In-service members	11 201 206	9 061 962
Continuation members	13 280 414	13 167 888
<b>Total Liability</b>	<b>24 481 620</b>	<b>22 229 850</b>

The current-service cost for the year ending 30 June 2014 is estimated to be R881 832, whereas the cost for the ensuing year is estimated to be R952 255 (30 June 2013: R952 255 and R1 131 824 respectively).

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014                    2013

#### **18. Retirement benefit liabilities (continued)**

##### **Key assumptions used**

The principal assumptions used for the purposes of the actuarial valuations was as follows:

Discount rates	8.79 %	8.33 %
Health care cost inflation rate	8.06 %	7.49 %
Net effective discount rate	0.67 %	78.00 %
Expected retirement age – females	63	63
Expected retirement age – males	63	63

Movements in the present value of the defined benefit obligation were as follows:

Balance at the beginning of the year	22 229 850	19 731 792
Current service costs	959 255	840 086
Interest cost	1 815 935	1 488 763
Benefits paid	(854 208)	(771 816)
Actuarial losses/(gains)	330 788	941 025
<b>Balance at the end of the year</b>	<b>24 481 620</b>	<b>22 229 850</b>

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	959 255	840 086
Interest cost	1 815 935	1 488 763
Actuarial losses/(gains)	330 788	941 025
<b>Total (note 28)</b>	<b>3 105 978</b>	<b>3 269 874</b>

The history of experienced adjustments is as follows:

	2014	2013	2012	2011	2010
Present value of defined benefit obligation	24 481 620	22 229 849	19 731 792	22 877 435	20 526 171
Deficit	24 481 620	22 229 849	19 731 792	22 877 435	20 526 171
Experienced adjustments on plan liabilities	292 739	(488 790)	(6 769 737)	1 949 195	(214 812)

##### **Other assumptions**

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

2014	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	378 233	(314 286)
Effect on defined benefit obligation	3 119 451	(2 612 048)
2013	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	318 700	(264 800)
Effect on defined benefit obligation	2 935 287	(2 446 080)

The municipality expects to make a contribution of R3,224 million (2013: R2,775 million) to the defined benefit plans during the next financial year.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>19. Non-current provisions</b>		
Provision for long service awards	11 076 109	8 440 747
<b>Total</b>	<b>11 076 109</b>	<b>8 440 747</b>
The movement in non-current provisions are reconciled as follows:		
Long-term service	8 440 747	9 055 346
Balance at beginning of year	3 229 906	317 081
Contributions to provision	11 670 653	9 372 427
Transfer to current provisions	(594 544)	(931 680)
<b>Balance at end of year</b>	<b>11 076 109</b>	<b>8 440 747</b>

A long-service Award is payable after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2014 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

At year-end, 835 (2013: 832) employees were eligible for long-service awards.

The current-service cost for the year ending 30 June 2014 is estimated to be R1 107 699, whereas the cost for the ensuing year is estimated to be R1 244 950 (30 June 2013: R1 357 080 and R1 107 699 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013				
<b>19. Non-current provisions (continued)</b>						
Discount rates used	8.21 %	7.56 %				
Cost inflation rate	7.28 %	6.85 %				
Net effective discount rate	0.86 %	0.66 %				
Expected retirement age – females	63	63				
Expected retirement age – males	63	63				
Movements in the present value of the defined benefit obligation were as follows:						
Balance at the beginning of the year	9 372 427	9 765 467				
Current service costs	1 107 699	1 357 080				
Interest cost	674 101	627 110				
Benefits paid	(931 680)	(931 680)				
Actuarial losses/(gains)	1 448 106	(1 667 109)				
Present value of fund obligation at the end of the year	11 670 653	9 150 868				
Actuarial losses/(gains) unrecognised	-	-				
Total recognised benefit liability	11 670 653	9 150 868				
The amounts recognised in the Statement of Financial Position are as follows:						
Present value of fund obligations	11 670 653	9 150 868				
Unfunded accrued liability	11 670 653	9 150 868				
Unrecognised actuarial gains/(losses)	-	-				
Total benefit liability	11 670 653	9 150 868				
The amounts recognised in the Statement of Financial Performance are as follows:						
Current service cost	1 107 699	1 357 080				
Interest cost	674 101	627 110				
Actuarial losses/(gains)	1 448 106	(1 667 109)				
Total post-retirement benefit	3 229 906	317 081				
The history of experienced adjustments is as follows:						
	2014	2013	2012	2011	2010	2009
Present value of defined benefit obligation	11 670 653	9 150 868	9 765 467	9 366 466	6 870 116	5 356 719
Deficit	11 670 653	9 150 868	9 765 467	9 366 466	6 870 116	5 356 719
Experienced adjustments on plan liabilities	1 671 011	(1 664 673)	(991 516)	870 061	755 438	492 099

In accordance with the transitional provisions for the amendments to IAS 19 employee benefits in December 2004, the disclosures above are determined prospectively from the 2006 reporting period.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>19. Non-current provisions (continued)</b>		
The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:		
<b>2014</b>	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	172 398	(152 506)
Effect on defined benefit obligation	928 953	(832 228)
<b>2013</b>	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	165 185	(145 890)
Effect on defined benefit obligation	221 559	(221 559)
The municipality expects to make a contribution of R2 178 800 (2013: R1 781 800) to the defined benefit plans during the next financial year.		
<b>20. Accumulated surplus</b>		
The Accumulated Surplus consists of:		
<b>Accumulated surplus/(deficit)</b>	<b>2 182 301 444</b>	<b>1 824 132 694</b>
Accumulated Surplus has been restated for various reasons indicated in Note 37 on "Correction of error".		
<b>21. Service charges</b>		
Sale of water	220 701 546	186 757 214
Sewerage and sanitation charges	94 082 061	87 766 966
	<b>314 783 607</b>	<b>274 524 180</b>
<b>22. Rental of facilities and equipment</b>		
Premises		
Rental of buildings	467 651	1 188 571
Rental of amenities	1 726 310	341 910
	<b>2 193 961</b>	<b>1 530 481</b>
Facilities and equipment		
Rental of other facilities	-	162 654
	<b>2 193 961</b>	<b>1 693 135</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>23. Interest earned</b>		
Bank account	10 597 167	2 299 256
Short-term investments	-	11 899
Correction of prior period error	-	(382 177)
	<b>10 597 167</b>	<b>1 928 978</b>
Outstanding receivables	3 192 402	2 706 132
Fair value adjustment of service charges	18 777 013	15 670 105
	<b>21 969 415</b>	<b>18 376 237</b>
<b>Total</b>	<b>32 566 582</b>	<b>20 305 215</b>
Interest earned on financial assets, analysed by category of asset, is as follows:		
Available-for-sale financial assets	10 608 243	2 311 155
Held-to-maturity investments	-	(382 177)
Loans and receivables	21 969 415	18 376 237
	<b>32 577 658</b>	<b>20 305 215</b>
<b>24. Other revenue</b>		
Administration fees	54 326	56 409
Agents' commission	-	72 236
Building plan fees	-	81 176
Connection fees	1 630 010	2 356 870
Reconnection fees	120 817	117 082
Restriction fees	429 675	677 798
Septic tank clearance fees	407 133	-
Tender deposits	193 887	334 711
Water rates certificates	220 408	135 090
Other revenue	3 322 504	8 024 891
	<b>6 378 760</b>	<b>11 856 263</b>

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>25. Government grants and subsidies</b>		
<b>Operational grants</b>		
Provincial equitable share	234 026 000	202 522 000
Levies replacement	50 290 000	46 138 000
Other grants	604 656	2 288 620
	<b>284 920 656</b>	<b>250 948 620</b>
<b>Conditional grants</b>		
National: FMG grant	1 293 210	1 106 802
National: DEAT grant	164 702	2 071 394
National: MIG grant	275 304 000	289 978 976
National: DWAF grant	55 750 208	29 943 525
National: Local Government grants	14 036 444	840 163
Provincial: Department of Cooperative Governance and Traditional Affairs grant	22 256 898	14 173 957
Provincial: Department of Public Works grant	883 496	-
Provincial: Department of Transport grant	1 765 019	1 640 949
Provincial: Human settlement and rural development	4 000 000	-
Development Bank of Southern Africa	828 956	280 002
Other grants	3 380 578	-
	<b>379 663 511</b>	<b>340 035 768</b>
	<b>664 584 167</b>	<b>590 984 388</b>
<b>Operational grants</b>		
<b>National: equitable share</b>		
Current year receipts	284 316 000	202 522 000
Conditions met – transferred to revenue: operating expenses	(284 316 000)	(202 522 000)
<b>Conditions still to be met – transferred to liabilities</b>		
In terms of the constitution, this unconditional grant is used primarily to subsidise the provision of basic services to the community. All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant.		
<b>Conditional grants</b>		
<b>National: finance management grant (FMG)</b>		
Balance unspent at beginning of year	44 678	-
Current year receipts	1 250 000	1 250 000
Conditions met – transferred to revenue: operating expenses	(1 268 762)	(1 031 238)
Conditions met – transferred to Revenue: capital expenses	(24 448)	(174 084)
<b>Conditions still to be met – transferred to liabilities</b>	<b>1 468</b>	<b>44 678</b>
The financial management grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act, 2003. The FMG Grant also pays for the cost of the financial management internship programme (e.g. salary costs of the financial management Interns).		
<b>National: Economic Affairs and Tourism Grant (DEAT)</b>		
Balance unspent at beginning of year	595 098	2 666 491
Conditions met – transferred to revenue: operating expenses	(164 702)	(1 078 727)
Conditions met – transferred to revenue: capital expenses	-	(992 666)
<b>Conditions still to be met – transferred to liabilities</b>	<b>430 396</b>	<b>595 098</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014                    2013

#### **25. Government grants and subsidies (continued)**

The European Community represented by the Department of Economic Development (Gijima KZN) awarded the grant for the implementation of the action entitled "Strengthening the LED Enabling Environment".

##### **National: Municipal Infrastructure Grant (MIG)**

Current year receipts	275 304 000	289 979 000
Conditions met – transferred to revenue: operating expenses	(115 107 659)	(130 883 724)
Conditions met – transferred to revenue: capital expenses	(160 196 341)	(159 095 277)
<b>Conditions still to be met – transferred to Liabilities</b>	-	(1)

The MIG grant is aimed at supplementing municipal budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households and for the provision, rehabilitation and renewal of municipal infrastructure.

##### **National: Dept of Water Affairs and Forestry Grant (DWAF)**

Balance unspent at beginning of year	7 609 474	8 988 043
Current year receipts	50 104 303	28 585 335
Conditions met – transferred to revenue: operating expenses	-	(3 764 605)
Conditions met – transferred to revenue: capital expenses	(53 711 564)	(26 199 299)
<b>Conditions still to be met – transferred to Liabilities</b>	4 002 213	7 609 474

DWAF grants are aimed at supplementing municipal budgets to assist with the construction of water delivery infrastructure, execution of water service delivery and the development of an asset management plan.

##### **National: Local Government grants**

Balance unspent at beginning of year	404 487	311 379
Current year receipts	890 000	1 000 000
Interest allocated	(864 487)	-
Conditions met – transferred to revenue: operating expenses	-	(906 892)
Transfers withheld during the year	(430 000)	-
<b>Conditions still to be met – transferred to Liabilities</b>	-	404 487

Various grants are paid by National Local Government to help implement the IDP, PMS, Sports Stadium and financial reform initiatives as required by the Municipal Finance Management Act (MFMA), 2003 and the Municipal Systems Act (MSA), 2000.

##### **Provincial: Department of Cooperative Governance and Traditional Affairs Grant**

Balance unspent at beginning of year	26 271 318	34 094 979
Current year receipts	6 000 000	13 752 004
Conditions met – transferred to revenue: operating expenses	(2 934 605)	(12 402 921)
Conditions met – transferred to revenue: capital expenses	(14 342 706)	(9 172 744)
Correction of prior period error - conditions met -transferred to revenue: operational expenses	(732 465)	-
<b>Conditions still to be met – transferred to Liabilities</b>	14 261 542	26 271 318

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act. They are aimed at supplementing municipal budgets to assist with the assessment of water service delivery mechanisms, water delivery planning and water services technical support. Funding was also received to assist with the construction of the Ugu sports and leisure centre.

##### **Provincial: Department of Public Works Grant**

Balance unspent at beginning of year	431 565	-
--------------------------------------	---------	---

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>25. Government grants and subsidies (continued)</b>		
Current year receipts	1 000 000	1 000 000
Interest allocated	(431 565)	-
Conditions met – transferred to revenue: operating expenses	(883 495)	(568 435)
<b>Conditions still to be met – transferred to liabilities</b>	<b>116 505</b>	<b>431 565</b>

This is an incentive grant from public works for the promotion of labour intensive projects within the district.

#### **Provincial: Department of Sport and Recreation Grant**

The purpose of the grant received from the Department of Sport and Recreation was to promote mass participation of a number of selected sport codes and related activities within disadvantaged communities in conjunction with other recreation federations, as well as to assist with the construction of the Ugu Sports and Leisure Centre.

#### **Provincial: Department of Transport Grant**

Balance unspent at beginning of year	513 375	482 934
Current year receipts	2 089 000	1 776 000
Conditions met – transferred to revenue: operating expenses	(1 765 019)	-
Conditions met – transferred to revenue: capital expenses	-	(1 745 559)
<b>Conditions still to be met – transferred to liabilities</b>	<b>837 356</b>	<b>513 375</b>

This funding was furnished by the KZN Department of Transport to assist with the preparation of a public transport plan as required by the National Land Transport Transition Act, 2000. No funds were transferred to the municipality for the year under review.

#### **Development Bank of Southern Africa**

Balance unspent at beginning of year	1 068 179	1 743 662
Current year receipts	-	204 073
Conditions met – transferred to revenue: operating expenses	(709 256)	(879 556)
Conditions met – transferred to revenue: capital expenses	(119 700)	-
<b>Conditions still to be met – transferred to liabilities</b>	<b>239 223</b>	<b>1 068 179</b>

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad based community information dissemination and empowerment.

#### **Other Government: Industrial Development Corporation**

Balance unspent at beginning of year	45 020	137 444
Interest allocated	-	(92 424)
<b>Conditions still to be met – transferred to liabilities</b>	<b>45 020</b>	<b>45 020</b>

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad based community information dissemination and empowerment.

#### **26. Public contributions and donations**

<b>Reconciliation of conditional contributions</b>		
Balance unspent at beginning of year	5 474 052	5 474 052
<b>Conditions still to be met – transferred to liabilities</b>	<b>5 474 052</b>	<b>5 474 052</b>

The District Municipality receives funds from public donors to provide humanitarian aid in various instances. These contributions were utilised for these purposes.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>27. Employee related costs</b>		
Salaries and Wages	140 549 835	149 612 026
Long services bonuses	998 036	-
Contribution to leave fund	2 953 958	37 892 508
Service bonuses	11 425 745	-
Contribution to UIF, pensions and medical aid	40 435 364	-
Travel, motor car, accommodation, subsistence and other allowances	19 518 112	24 036 726
Overtime payments	20 810 648	28 678 133
Housing benefits and allowances	1 045 326	1 137 058
Defined benefit plan expense:	4 549 996	2 876 834
Current service cost	281 066	1 487 045
Interest cost	2 490 036	2 115 873
Net actuarial (gains)/losses recognised	1 778 894	(726 084)
	<b>242 287 020</b>	<b>244 233 285</b>

#### **Remuneration of Section 57 employees**

##### **Remuneration of municipal manager**

Annual remuneration	911 446	708 207
Car, entertainment, housing, subsistence and other allowances	227 778	394 758
Contributions to UIF, medical and pension funds	207 088	82 015
Leave encashed	-	403 892
	<b>1 346 312</b>	<b>1 588 872</b>

The municipal manager resigned in January 2013 and the new municipal manager was appointed in March 2013.

##### **Remuneration of deputy municipal manager**

The post became vacant in December 2011. The position has not been filled yet at 30 June 2013.

##### **Remuneration of chief finance officer**

Annual remuneration	513 083	368 576
Car, entertainment, housing, subsistence and other allowances	214 332	441 584
Contributions to UIF, medical and pension funds	56 689	63 422
Leave encashed	238 718	-
	<b>1 022 822</b>	<b>873 582</b>

The General Manager: Financial Services resigned on 31 March 2012. The Manager: Budget Office assumed the acting position from April 2012 to August 2012 and was appointed as the Chief Financial Officer on 1 September 2012.

##### **Corporate and human resources (corporate services)**

Annual remuneration	570 892	409 340
Car, entertainment, housing, subsistence and other allowances	520 822	490 745
Contributions to UIF, medical and pension funds	12 199	11 273
Leave encashed	-	141 853
	<b>1 103 913</b>	<b>1 053 211</b>

##### **Remuneration of the General Manager: Infrastructure and Economic Development**

Annual remuneration	760 636	658 728
Car, entertainment, housing, subsistence and other allowances	276 077	229 315
Contributions to UIF, medical and pension funds	11 580	11 165
Leave encashed	-	118 879

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>27. Employee related costs (continued)</b>	<b>1 048 293</b>	<b>1 018 087</b>
<b>Remuneration of the General Manager: Water Services</b>		
Annual remuneration	464 872	613 449
Car, entertainment, housing, subsistence and other allowances	174 405	203 980
Contributions to UIF, medical and pension funds	16 129	9 363
Leave encashed	58 991	129 426
	<b>714 397</b>	<b>956 218</b>
<b>Remuneration of the General Manager: Operations</b>		
The post became vacant in December 2011. The position has not been filled yet at 30 June 2013.		
<b>Remuneration of the Senior Manager: Strategy and Shared Services</b>		
Annual remuneration	592 205	547 954
Car, entertainment, housing, subsistence and other allowances	193 257	180 361
Contributions to UIF, medical and pension funds	9 258	8 635
	<b>794 720</b>	<b>736 950</b>
The following compensation was payable to key management personnel as at 30 June:		
<b>Staff leave benefits:-</b>		
Municipal manager	50 833	28 988
Chief financial officer	85 595	44 589
General manager: corporate services	152 780	28 800
General manager: infrastructure & economic development	152 780	34 375
General manager: water services	171 213	12 841
Special advisor	-	106 998
	<b>613 201</b>	<b>256 591</b>
<b>28. Remuneration of councillors / board members</b>		
Mayor	343 056	343 056
Deputy mayor	261 568	261 564
Executive committee members	1 508 267	1 473 300
Speaker	-	258 918
Councillors / board members	1 175 230	1 131 961
Company contributions to UIF, medical and pension funds	479 129	460 096
Medical aid	171 668	153 944
Pension fund	240 020	239 254
Skills development levy	67 441	66 898
Other allowances (cellular phones, housing, transport, etc.)	<b>3 757 912</b>	<b>3 919 640</b>
Housing subsidy	1 411 268	3 919 640
Telephone allowance	297 286	-
Travelling allowance	2 049 358	-
Chief whip	258 918	-
	<b>7 784 080</b>	<b>7 848 535</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014

2013

#### **28. Remuneration of councillors / board members (continued)**

##### **In-kind benefits**

The Councillors occupying the positions of Mayor, Deputy Mayor, Speaker and Executive Committee members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

Councillors may utilise official council transportation when engaged in official duties.

The following additional personal support is provided by the municipality:

- (i) The Mayor has one full-time bodyguard and one full-time driver.
- (ii) The Deputy Mayor has one full-time aide, fulfilling various personal duties.
- (iii) The Speaker has one full-time driver.

#### **29. Depreciation and amortisation**

Property plant and equipment	64 354 996	50 041 420
Amortisation intangible assets	3 073 264	2 712 905
	<b>67 428 260</b>	<b>52 754 325</b>

#### **30. Impairment loss**

Property plant and equipment	-	(632 883)
Inventory	-	(1 166 858)
Trade and other receivables	(4 664 957)	-
	<b>(4 664 957)</b>	<b>(1 799 741)</b>

##### **Reversal**

Consumer debtors	-	25 808 598
<b>Total Impairment losses (recognised) reversed</b>	<b>(4 664 957)</b>	<b>24 008 857</b>

#### **31. Finance costs**

Trade payables	661 744	788 184
Loans and payables at amortised cost	15 321 376	16 171 745
	<b>15 983 120</b>	<b>16 959 929</b>

#### **32. Bulk purchases**

Water	52 126 622	34 650 454
-------	------------	------------

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Bulk water is purchased from the Umgeni Water Board and eThekweni Municipality.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>33. Contracted services</b>		
Other Contractors	3 578	3 334 588
Cleaning services	1 868 658	2 206 755
Professional services:		
– Chemistry	4 044 040	1 327 430
– Dam safety	15 500	1 714 419
– Engineering services	1 575 458	197 671
– Other professional services	1 820 589	-
Security services:		
– Alarm monitoring	4 470	9 789
– Cash banking	147 097	152 019
– General security	10 100 000	8 999 373
Sewerage purification services	-	189 810
<b>Total</b>	<b>19 579 390</b>	<b>18 131 854</b>
<b>34. Grants and subsidies</b>		
Community projects	15 831 657	132 841 081
Low income subsidy	55 568 124	49 829 466
Other grants and subsidies paid	253 000	17 768 051
Other	47 337 769	-
<b>Total</b>	<b>118 990 550</b>	<b>200 438 598</b>

Conditional grants paid is in respect of projects undertaken by municipalities within the municipality's area of jurisdiction and funded by Ugu District Municipality.

Community projects consist primarily of ventilated pit latrines constructed for communities that have no access to sanitation services. This project is accelerated to deal swiftly with the municipality's sanitation backlog programme as funded through the Municipal Infrastructure Grant.

The low income subsidy is in respect of providing basic service levels to indigent households.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>35. General expenses</b>		
Accommodation, seminars and travelling	368 387	350 280
Advertising	167 631	220 878
Audit fees	2 111 074	2 341 651
Bad debt written off	6 053 415	-
Catering expenses	540 887	655 497
Cellphones, internet and telephones	2 772 597	3 221 801
Cleaning materials and chemicals	259 421	237 249
Commission paid	1 147 364	1 011 748
Consultant information technology support	90 343	131 800
Consumables	152 659	214 454
Electricity	45 719 017	42 301 197
Entertainment	-	11 606
Events and programmes	1 195 485	2 548 685
Fuel and oil	10 198 419	9 819 823
Gardening services	758 642	364 990
Insurance general	2 776 679	60 660
Kwanaloga games	-	1 736 585
Kwanaloga subscriptions	4 157 174	2 238 687
Legal expenses	3 250 238	831 417
Licences	3 767 605	1 774 080
Loose/small tools	297 333	264 970
Marketing expenses	58 067	214 107
Materials	5 716 605	6 917 082
Postage	1 622 345	1 440 409
Printing and stationery	681 767	430 920
Property transfers	895 551	-
Public participation	3 142 416	174 174
Refreshments	135 585	678 487
Sports and leisure centre	2 013 144	3 733 553
Staff training	1 615 244	984 114
Subscriptions	2 496	14 633
Subsistence	-	1 073
Training cost	14 453	105 435
Transport costs	11 547 647	6 704 808
Uniforms and protective clothing	691 679	679 311
Vehicle tracking	1 035 830	289 492
Workmen's compensation insurance	1 324 610	1 435 909
Other General Expenses	213 916	1 097 741
	<b>116 495 725</b>	<b>95 239 306</b>

#### **36.1 Material losses**

##### **Distribution losses:**

Water losses 20 333 005    24 584 019

The amounts disclosed above for water losses are in respect of production costs incurred in the extraction, purification, storage and distribution of water by the municipality and not directly attributable to a specific service or class of expense (See note 2).

#### **36. Changes in accounting policy**

The municipality adopted no Accounting Standards for the first time during the financial year 2013/14 in order to comply with the basis of preparation of the Annual Financial Statements as disclosed in Accounting Policy 1.

#### **37. Correction of Error**

Corrections were made during the previous financial years. Details of the corrections are described below:

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
-----------------	------	------

#### **37. Correction of Error (continued)**

##### **Reclassification of Accumulated Surplus**

The prior year figures of Accumulated Surplus has been restated to correctly disclose the monies held by the municipality in terms of the disclosure notes indicated below.

Restatement of prior year balance

Property plant and equipment	Year	Land & Buildings	Moveables	Community	Infrastructure	Total
Reported Closing	2011/12	493 346 431	45 520 102	105 432 029	1 418 319 822	2 062 819 496
Correction of prior year error	2011/12	(10 107 012)	3 484 486	86 109	(433 652)	(6 768 957)
Restated Opening balance	2012/13	483 239 419	49 004 588	105 518 138	1 417 886 170	2 056 050 539
Correction of prior year error	2012/13	(361 872)	(8 123 032)	(99 601)	(25 728 627)	(34 111 919)
<b>Restated Closing balance</b>	<b>2012/13</b>	<b>482 877 547</b>	<b>40 881 556</b>	<b>105 418 537</b>	<b>1 392 157 543</b>	<b>2 021 938 620</b>

The prior year errors relate to the Property plant and equipment omitted from the fixed asset register in their respective periods. These items were identified through detail reconciliation of fixed asset registers in the current year. The municipality is confident that it has performed enough and sufficient procedures to account for all assets of the municipality.

Intangibles	Year	Software	Servitudes	Total
Reported Closing	2012/13	8 052 181	2 533 242	10 786 636
Correction of prior year error	2011/12	(289 007)	26 400	(61 495)
Correction of prior year error	2012/13	(107 792)	19 730	113 151
<b>Restated Closing balance</b>	<b>2012/13</b>	<b>7 655 382</b>	<b>2 579 372</b>	<b>10 838 292</b>

The prior year errors relates to the recalculation of depreciation and the missallocation of transactions.

VAT	2012/13
Reported Closing	21 358 960
Correction of error	1 881 498
<b>Restated Closing Balance</b>	<b>23 240 458</b>

This correction of prior year error relates to overstatement of VAT receivable. The error include output vat that was under declared in the previous year, Interest and penalties levied against late payments. This error has been resolved and communicated to SARS.

Inventory	2012/13
Amount reported	8 348 334
Correction of error	(1 499 545)
<b>Restated Amount</b>	<b>6 848 789</b>

The correction of error relates to the incorrect rate used to calculate the stock on hand. Stock was not measured at lower of cost and net realisable value.

Inter Company	2012/2013
Amount reported	8 643 941
Correction of error	(86 447)
<b>Restated Amount</b>	<b>8 557 494</b>

This correction of error relates to the inter compay balance that was not cleared in the prior year.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>38. Cash generated from operations</b>		
Surplus	358 168 750	241 657 185
<b>Adjustments for:</b>		
Depreciation and amortisation	67 428 260	52 754 325
Interest income	(32 566 581)	-
Finance costs	15 983 120	-
Impairment losses on property, plant and equipment	4 664 957	632 883
Losses / (Gains) on Disposal of Property, Plant and Equipment	31 070	-
Movements in retirement benefit assets and liabilities	-	3 269 874
Expenditure incurred from retirement benefit liabilities	(854 208)	(754 068)
Contribution to Retirement Benefit Liabilities	3 105 978	-
Other Property, Plant and Equipment movement	7 947 930	6 051 419
Contribution to Provisions – Current	3 229 906	(683 576)
Contribution to Provisions – Non-current	(931 680)	317 081
Expenditure incurred from Provisions – Current	-	(771 816)
Correction of prior year errors	-	(100 428)
Contribution to impairment provision	-	(25 808 598)
Leave contribution	3 020 980	-
<b>Changes in working capital:</b>		
Inventories	(1 130 626)	611 601
Receivables from exchange transactions	(31 059 818)	(33 074 952)
Other receivables from non-exchange transactions	(1 211 700)	16 040 743
Current portion of long-term receivables	62 888	(37 996)
Operating lease receivables	19 382	(43 785)
Payables	24 621 003	(29 015 502)
VAT	8 212 405	(11 450 383)
Unspent conditional grants and receipts	(3 175 330)	4 311 511
Consumer deposits	(345 516)	588 984
Operating lease liabilities	(25 391)	34 011
	<b>425 195 779</b>	<b>224 528 513</b>

### **39. Non-Cash Investing and Financing Transactions**

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2013/14 financial year.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>40. Financing facilities</b>		
Unsecured Bank Overdraft Facility, reviewed annually and payable at call:	1 900 000	5 000 000
	<u>1 900 000</u>	<u>5 000 000</u>
Unsecured Guarantee Facility, reviewed annually and payable monthly:		
-Amount used	-	-
-Amount unused	3 100 000	-
	<u>3 100 000</u>	-
Unsecured Fleet Card Facility, reviewed annually and payable monthly:	1 500 000	2 500 000
	<u>1 500 000</u>	<u>2 500 000</u>
Unsecured Vehicle and Asset Finance Facility, reviewed annually:	-	7 294 544
- Amount used	-	2 705 456
- Amount unused	12 500 000	-
	<u>12 500 000</u>	<u>10 000 000</u>
Unsecured Automated Clearing Bureau Facility:	-	-
-Amount used	2 000 000	-
	<u>2 000 000</u>	-
Secured Bank Loan Facilities with various maturity dates through to 2011 and which may be extended by mutual agreement:	85 433 000	85 433 000
	<u>85 433 000</u>	<u>85 433 000</u>
<b>41. Unauthorised expenditure</b>		
Reconciliation of Unauthorised Expenditure:		
Unauthorised Expenditure current year	3 493 027	8 125 720
Unauthorised Expenditure awaiting authorisation	<u>3 493 027</u>	<u>8 125 720</u>
Incident	Amount	Amount
Budgeted amounts exceeded:		
Disciplinary steps/ criminal proceedings: To be condoned by Executive Committee		
Infrastructure & economic development	-	7 038 102
Water	3 493 027	-
Environmental protection	-	1 087 618
Total expenditure	<u>3 493 027</u>	<u>8 125 720</u>
<b>42. Fruitless and wasteful expenditure</b>		
Reconciliation of fruitless and wasteful expenditure:		
Opening balance	2 028 291	1 218 632
Fruitless and wasteful expenditure during the current year	661 744	809 659
Fruitless and wasteful expenditure awaiting condonement	<u>2 690 035</u>	<u>2 028 291</u>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014                    2013

#### **42. Fruitless and wasteful expenditure (continued)**

##### **Incident**

Interest on late payments – R661 744 (2013:  
R809 659)

Disciplinary steps/ criminal proceedings:  
A report will be adopted by the executive  
committee, condoning the "fruitless and wasteful  
expenditure" for the current year.  
Disciplinary action is in progress for the prior  
year's fruitless and wasteful expenditure

#### **43. Additional disclosure in terms of Municipal Finance Management Act**

##### **Contributions to organised local government**

Current year subscription / fee	2 118 324	2 238 688
Amount paid - current year	(2 118 324)	(2 238 688)

##### **Audit fees**

Opening balance	204 159	269 143
Current year subscription / fee	2 059 806	2 372 713
Amount paid - current year	-	(2 168 554)
Amount paid - previous years	(204 159)	(269 143)
	2 059 806	204 159

The balance unpaid represents the audit fee for pre-audit of and planning the audit for the 2013/14 financial year and is payable by 31 July 2014.

##### **PAYE, Skills Development Levy and UIF**

Current year subscription / fee	35 783 740	35 356 418
Amount paid - current year	(35 783 740)	(35 356 418)

##### **Pension and Medical Aid Deductions**

Current year subscription / fee	51 160 355	44 544 336
Amount paid - current year	(51 160 355)	(44 544 336)

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014                    2013

#### **43. Additional disclosure in terms of Municipal Finance Management Act (continued)**

##### **Councillors' arrear consumer accounts**

The following councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2013	Outstanding less than 90 days	Outstanding more than 90 days	Total
	R	R	R
Gumede ST	106	339	445
Dzingwa TN	1 623	726	2 349
Ntanza VL	9 595	4 884	14 479
Mavundla IM	97	-	97
Gumede NH	2 969	7 246	10 215
Chiliza MA & ZP	-	283	283
Gumede ST & PY	2 169	565	2 734
Nair Y	2 889	-	2 889
Chiliza MA & ZP	180	-	180
	19 628	14 043	33 671
30 June 2014 Unaccounted water losses			Value
30 June 2013 Unaccounted water losses			20 333 005
			24 584 019

Water losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/ repaired as soon as they are reported.

A five-year strategic non-revenue water reduction plan was adopted and implemented by the Executive Committee in May 2008. The below-mentioned technical information was derived at as part of the implementation plan:

##### **Volumes in Ml/year:**

System input volume	40 458	38 621
Billed authorised consumption	31 464	26 716
Unbilled authorised consumption	838	492
Apparent losses	1 679	2 348
Real losses	6 477	9 065
Estimated non-revenue water	8 994	11 905

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>44. Deviation from, and ratification of minor breaches of, the procurement process</b>		
<b>Reconciliation of Irregular Expenditure:</b>		
Opening balance	61 101 377	17 603 725
Irregular Expenditure current year	95 211 842	67 558 332
Condoned or written off by Council	-	(24 060 681)
To be recovered – contingent asset	(4 714 038)	-
<b>Irregular Expenditure awaiting condonement</b>	<b>151 599 181</b>	<b>61 101 376</b>

Incident	Disciplinary Steps / Criminal Proceedings	2014	2013
Expenditure contrary to the provisions of Regulation 44 of the Municipal Supply Chain Management Regulations as described in Note xx	All Irregular Expenditure incurred has been referred to Internal Audit for investigation. MPAC will advise Council on the recoverability of the expenditure	13 692 175	12 627 401
Expenditure according to the provisions of Regulation 36 of the Municipal Supply Chain Management Regulations as described in Note xx	All Irregular Expenditure incurred has been referred to Internal Audit for investigation. MPAC will advise Council on the recoverability of the expenditure	16 904 377	5 968 655
Irregular expenditure incurred contrary to the Supply Chain Management Policy	All Irregular Expenditure incurred has been referred to Internal Audit for Investigation. MPAC will advise Council on the recoverability of the expenditure	64 615 290	48 962 276
-		<b>- 95 211 842</b>	<b>67 558 332</b>

#### Xxx Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the financial statements.

The majority of the items mentioned resulted from flood damage that had to be addressed at short notice and the response times did not allow for the complete procurement process to be followed. The balance of items was due to emergency circumstances and economic benefits for the municipality.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

Department	Date	Successful tenderer	Reason	Amount
Water services Supply of toilets at Umzinto informal settlements	September 2013	Sanitech	Impractical to follow SCM process	264 413
Water services Supply of chemicals for water purification	September 2013	Sud-Chemie	Extension of contract	693 000

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand		2014	2013
<b>44. Deviation from, and ratification of minor breaches of, the procurement process (continued)</b>			
Water services Supply of chemicals for water purification	September 2013	Ncp Chlorchem	Extension of contract
Water services Service plan on fleet already purchased from dealer using scm process	EFT000167	Bates Delta	Impractical to follow SCM process
Water services Hire of water tankers to deliver water to areas without access	October 2013	Harappa Trading	Extension of contract
Water services Hire of water tankers to deliver water to areas without access	October 2013	Mcalafuze Development cc	Extension of contract
Water Services Hire of water tankers to deliver water to areas without access	October 2013	Wasteng (Pty)Ltd	Extension of contract
Water services Hire of water tankers to deliver water to areas without access	October 2013	Isifiso sikaNdlovu Contraction	Extension of contract
Water services Hire of water tankers to deliver water to areas without access	October 2013	VT Moodley	Extension of contract
Water services Hire of water tankers to deliver water to areas without access	October 2013	Simuma Transport	Extension of contract
Water services Hire of water tankers to deliver water to areas without access	October 2013	Dynamo-Duck Trading	Extension of contract
Water services Extension of water tankers,contract expired in April 2013 (Ugu-07-1090-2011)t	October 2013	African Tide Trading	Extension of contract
Water Services Hire of water tankers to deliver water to areas without access	October 2013	Ityatyambo Trading	Extension of contract
Fleet section Repairs and Maintenance to all Isuzu vehicles,light and vehicles	October 2013	Bates Delta	Agents
Corporate services Provision of Councillor Accredited Training	October 2013	Umqondo Trading cc	Accredited Supplier
Water Services Hire of water tankers to deliver water to areas without access	October 2013	Ngomsolethu Construction cc	Extension of contract
Fleet Section Repairs and Maintenance of Nissan Light and Heavy Vehicles	October 2013	Brian Thompson	Agents
Water services Appointment as a consultant on a Umzinto repair of access road to Pumpstation after flood disaster	November 2013	Umpisi Engineers	Emergency Disaster Project
IED Additional costs for changes made on the material for GDS Summit	November 2013	Distinctive choice 964 cc	Additional specifications
Treasury Printing of customer statements	November 2013	Lasercom	Extension of contract
Treasury Printing of salary cheques	November 2013	CC Printing Solutions	Service available from sole provider

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand		2014	2013
<b>44. Deviation from, and ratification of minor breaches of, the procurement process (continued)</b>			
Water services Repairs and Maintenance of Nissan Light and Heavy Vehicles	December 2013	Brian Thompson	Agents 190 000
Water services Repairs and Maintenance of Nissan Light and Heavy Vehicles	December 2013	Bates Delta	Agents 190 000
Corporate Services Replacement and network management at different Ugu sites	December 2013	Jireh Technologies	Extension of contract 127 361
Water services Repairs and Maintenance of Isuzu Light and Heavy Vehicles	December 2013	Bates Delta	Agents 2 140 863
Water services Consultant on emergency disaster relief project	December 2013	Bosch Stemele PTY LTD	Emergency Disaster Project Agents 171 000
Fleet section Repairs and Maintenance of Toyota Light and Heavy Vehicles	December 2013	Halfway Toyota	Agents 40 000
Fleet section Repairs and Maintenance of Isuzu Light and Heavy Vehicles	December 2013	Bates Delta	Agents 194 000
Fleet section Repairs and Maintenance of Isuzu Light and Heavy Vehicles	December 2013	Halfway Toyota	Agents 40 000
Corporate services Consultant on disaster management centre	January 2014	VHB Projects	Extension of contract 2 700 000
Water services Contractor appointed on disaster emergency relief project	January 2014	Town Around Civils	Emergency Disaster Project 1 124 817
Fleet section Repairs and Maintenance of Fuso and Mitsubishi Trucks	January 2014	Union Motors	Agents 100 000
Water services Consultant on emergency work during December 2012 peak season	January 2014	PGA Consulting cc	Emergency work done during the peak season 1 000 550
Water services Hire of water tankers to deliver water to areas without access	January 2014	Harappappa Trading	Extension of contract 17 217
Water Services Hire of water tankers to deliver water to areas without access	January 2014	African Tide Trading	Extension of contract 18 418
Water services Hire of water tankers to deliver water to areas without access	January 2014	Gillili Business Trading	Extension of contract 15 414
Water services Supply of toilets at Umzinto informal settlements	February 2014	Waco Africa (Pty) Ltd	Extension of contract 273 000
Office of the Municipal Manager Catering to special programmes	February 2014	Nando's Port Shepstone	Special Programme 8 535
Water services Repairs and Maintenance of Isuzu Light and Heavy Vehicles	February 2014	Bates Delta	Agents 190 000
Water services Repairs and Maintenance of Isuzu Light and Heavy Vehicles	February 2014	Brian Thompson	Agents 190 000

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand		2014	2013
<b>44. Deviation from, and ratification of minor breaches of, the procurement process (continued)</b>			
Water services	February 2014	Brian Thompson	Agents
Repairs and Maintenance of Isuzu Light and Heavy Vehicles			190 000
Corporate Services	February 2014	Datapro (Pty) Ltd	Extension of contract
IProvision of Internet and wireless network services	March 2014	Bates Delta	Urgent
Water services	March 2014		190 000
Repairs and Maintenance of Isuzu Light and Heavy Vehicles			
Water services	March 2014	Union Motors	Agents
Repairs and Maintenance of Fuso and Mitsubishi Trucks			50 000
Water services	March 2014	Bates Delta	Agents
Repairs and Maintenance of Isuzu Light and Heavy Vehicles			190 000
Water services	April 2014	Brian Thompson	Agents
Repairs and Maintenance of Nissan Light and Heavy Vehicles			190 000
Sanitation	April 2014	Ncp Chlorchem	Extension of contract
Supply of chemicals for water purification	May 2014	Clariant Southern Africa	Extension of contract
Sanitation			684 000
Supply and delivery of bulk chemicals			
Water services	May 2014	Harappa Trading	Extension of contract
Hire of water tankers to deliver water to areas without access			58 559
Water services	May 2014	Ityatyambo Trading	Extension of contract
Hire of water tankers to deliver water to areas without access			38 214
Fleet section	May 2014	Brian Thompson	Agents
Repairs and Maintenance of Nissan Light and Heavy Vehicles			190 000
Fleet section	May 2014	Bates Delta	Agents
Repairs and Maintenance of Isuzu Light and Heavy Vehicles			190 000
Fleet section	June 2014	Bates Delta	Agents
Repairs and Maintenance of Isuzu Light and Heavy Vehicles			172 687
Fleet section	June 2014	Wasteng Pty Ltd	Extension of contract
Hire of water tankers to deliver water to areas without access			175 269
Fleet section	June 2014	Ityatyambo Trading	Extension of contract
Hire of water tankers to deliver water to areas without access			117 114
Fleet section	June 2014	Harappa Trading	Extension of contract
Hire of water tankers to deliver water to areas without access			117 114
Fleet section	June 2014	African Tide Trading	Extension of contract
Hire of water tankers to deliver water to areas without access			117 114
Fleet section	June 2014	Bates Delta	Agents
Repairs and Maintenance of Isuzu Light and Heavy Vehicles			190 000
Water services	June 2014	African Tide Trading	Extension of contract
Hire of water tankers to deliver water to areas without access			59 292

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013		
<b>44. Deviation from, and ratification of minor breaches of, the procurement process (continued)</b>				
Furthermore, the municipality has made the following awards to persons in service of Government institutions contrary to the provisions of paragraphs 44 of the Municipal Supply Chain Management Regulations:				
Company Name	Related Person	Municipal Capacity	Purchases for the Year	Purchases for the Year
Asipheyena Catering and Trading Enterprise	Gloria Nondumiso	KZN Education	-	1 755
Besafe Security Services	Tintswalo Hlulani	KZN Rural Dev & Land Reform	-	624 684
Camlulo Trading	Hombakazi	Statistics South Africa	-	3 982 123
Jays Studio	Malamela Zukile	EC Agriculture & Land Affairs	-	1 506 461
Lwandiliso Construction & Projects CC	Bulelani	EC Education & Culture	-	14 100
Mafuthe Ngusha Trading	Dumisile	KZN Education	-	1 141 807
Mpheme Trading	Goodness Zibuyile	KZN Education	-	120 686
Nhlanhla & Thobi Trading CC	Mthunzi Andile Pearson	KZN Education	-	558 188
Sthembu Buntu General Trading	Ruth Lulama	EC Agriculture & Land Affairs	-	395 921
Yolwayo Construction	Laura	KZN Education	-	22 500
African Tide Trading CC	AT Xaba	Eskom Holdings Ltd	362 502	708 076
Margate Hotel (J & K Hotel)	PJ Venter	Stellenbosch Local Municipality	63 900	134 220
MCB Projects CC	B Geyer	Transnet Limited	2 072 656	-
Sihloniphe Business Trading Primary CO - OP LTD	NM Mkhanyawo	South African Police Service	2 475	9 125
Sihloniphe Business Trading Primary CO - OP LTD	AN Mhlongo	KZN Education	2 475	-
Ihubalam Trading	RL Dzengwa	EC Roads & Public Works	9 877 508	2 118 244

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand		2014	2013
<b>44. Deviation from, and ratification of minor breaches of, the procurement process (continued)</b>			
Trentyre PTY LTD	NP Mona	Komatiland Forests	136 397      341 944
Dumani Catering & general Services	S Moodley	KZN Education	48 800      103 820
Isifiso Sika Ndlovu Contracting And Trading CC	NP MSANI	KZN Education	848 107      575 424
Mahlafuna Distributors	D. NGCOBO	KZN Education	277 355      268 322
			<b>13 692 175      12 627 400</b>

#### 45. Commitments for expenditure

##### Capital commitments

<b>Approved and contracted for:-</b>			
• Infrastructure		256 360 749	321 937 680
• Other		69 958 052	21 248 606
		<b>326 318 801</b>	<b>343 186 286</b>

##### Approved but not yet contracted for:-

• Infrastructure	58 294 324	193 001 041
	<b>58 294 324</b>	<b>193 001 041</b>

##### Total capital commitments

<b>This expenditure will be financed from:</b>			
Government grants		327 999 963	515 807 251
Own resources		56 613 163	20 380 076
		<b>384 613 126</b>	<b>536 187 327</b>

##### Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in Note 4 and 18

##### Other commitments

<b>Commitments for expenditure:</b>			
- within one year		-	1 565 659
- Thereafter		-	1 710 053
		<b>-</b>	<b>3 275 712</b>

#### 46. Financial instruments disclosure

##### Categories of financial instruments

2014

##### Financial assets

In accordance with GRAP 104.13 the financial assets of the municipality are classified as follows:

	At fair value	At amortised cost	Total
Long-term loans			
Relocation loans	-	28 442	28 442
Sundry loans	-	3 600	3 600

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>Financial Instruments disclosure (continued)</b>		
<b>Receivables from exchange transactions</b>		
Sewerage	- 28 276 840	28 276 840
Water	- 77 853 144	77 853 144
Other receivables from non-exchange transactions	- 24 550 459	24 550 459
<b>Receivables from non-exchange transactions</b>		
Payments made in advance	- 1 920 995	1 920 995
Government subsidy claims	- 1 763 703	1 763 703
Insurance claims	- 122 367	122 367
Municipal entities	- 66 846	66 846
Sundry deposits	- 893 075	893 075
Sundry debtors	- 15 128 310	15 128 310
Cash and cash equivalents		
Call deposits	7 560 313	- 7 560 313
Notice deposits	- 732 428	732 428
Bank balances	152 374 235	- 152 374 235
Cash floats and advances	4 910	- 4 910
Current portion of long-term receivables		
Relocation loans	- 28 442	28 442
Sundry loans	- 3 600	3 600
	<b>159 939 458</b>	<b>151 372 251</b>
		<b>311 311 709</b>

### Financial liabilities

In accordance with GRAP 104.13 the financial liabilities of the municipality are classified as follows:

	At fair value	At amortised cost	Total
<b>Long-term receivables</b>			
Annuity loans	- 365 733 784	365 733 784	
Other loans	- 3 063 785	3 063 785	
<b>Payables</b>			
Bank overdraft			
Bank overdraft	3 281 879	-	3 281 879
Current portion of long term liabilities			
Annuity loans	- 3 361 417	3 361 417	
	<b>3 281 879</b>	<b>372 158 986</b>	<b>375 440 865</b>

2013

### Financial assets

	At fair value	At amortised cost	Total
<b>Long-term receivables</b>			
Relocation loans	- 62 799	62 799	
Sundry loans	- 7 493	7 493	
<b>Receivables from exchange transactions</b>			
Sewerage	- 23 821 201	23 821 201	
Water	- 60 035 920	60 035 920	
Water rate	- 13 307 081	13 307 081	
Other trade	- 4 372 345	4 372 345	
<b>Receivables from non-exchange transactions</b>			
Payments made in advance	- 63 406	63 406	
Government subsidy claims	- 150 503	150 503	
Insurance claims	- 122 367	122 367	
Municipal entities	- 50 979	50 979	
Sundry deposits	- 1 003 908	1 003 908	

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>. Financial instruments disclosure (continued)</b>		
Sundry debtors	-	7 252 778
Cash and cash equivalents	12 012 570	-
Call deposits	-	12 012 570
Notice deposits	-	708 687
Bank balances	59 026 230	-
Cash floats and advances	4 910	-
Current portion of long term receivables	-	4 910
Relocation loans	-	47 824
Sundry loans	-	3 600
	<b>71 043 710</b>	<b>111 010 891</b>
		<b>182 054 601</b>

#### Financial liabilities

In accordance with GRAP 104.13 the financial liabilities of the municipality are classified as follows:

	At fair value	At amortised cost	Total
<b>Long-term liabilities</b>			
Annuity loans	-	181 806 910	181 806 910
Finance lease liabilities	-	4 639 625	4 639 625
Payables	-	18 506 575	18 506 575
Trade creditors	-	4 410 025	4 410 025
Projects	-	35 579 377	35 579 377
Retentions	-	9 248 785	9 248 785
Staff bonuses	-	15 268 299	15 268 299
Staff leave accrued	-	45 889 301	45 889 301
Other creditors	-	-	-
Bank overdraft	3 195 209	-	3 195 209
Current portion of long-term liabilities	-	14 610 464	14 610 464
Annuity loans	-	2 299 315	2 299 315
Finance lease liabilities	-	-	-
	<b>3 195 209</b>	<b>332 258 676</b>	<b>335 453 885</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
-----------------	------	------

#### **47. Financial Instruments**

##### **Fair value**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate such value:

##### **Cash and short-term investments:**

The carrying amount approximates the fair value because of the short maturity of these instruments.

##### **Long-term investments**

The fair value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

##### **Loan receivables/payables**

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

##### **Trade and other receivables/payables**

The management of the municipality is of the opinion that the carrying value of trade and other receivables recorded at amortised cost in the annual financial statements approximate their fair values. The fair value of trade receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

##### **Other financial assets and liabilities**

The fair value of other financial assets and financial liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

##### **Long-term liabilities**

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the annual financial statements to approximate their fair values on 30 June 2013, as a result of the short-term maturity of these assets and liabilities.

No financial instruments of the municipality were reclassified during the year.

##### **Assumptions used in determining fair value of financial assets and financial liabilities**

The table below analyses financial instruments carried at fair value at the end of the reporting period by the level of fair-value hierarchy as required by IFRS 7. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

**Level 1:** Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

**Level 2:** Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

**Level 3:** Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014

2013

#### **47. Financial instruments (continued)**

##### **Capital risk management**

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in note 7, bank, cash and cash equivalents and equity, comprising accumulated Surplus as disclosed in Note 3 and the statement of changes in net assets.

##### **Gearing ratio**

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 100%, decreasing to 90%. This ratio is as a result of the developmental challenges faced by the municipality. Some of the borrowings are below market related rates.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>47. Financial Instruments (continued)</b>		
The gearing ratio at the year-end was as follows:	2014	2013
Debt	R	R
Cash and cash equivalents	184 071 569	203 356 314
	(152 369 325)	(59 021 320)
Net Debt	31 702 244	144 334 994
Equity	2 212 030 578	1 872 034 085
<b>Net debt to equity ratio</b>	<b>1.43 %</b>	<b>7.71 %</b>

Debt is defined as long- and short-term Liabilities, as detailed in Note 18.

Equity includes all funds and reserves of the municipality, disclosed as net assets in the statement of financial performance and net debt as described above.

#### **Financial risk management objectives**

The accounting officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IASs mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The directorate: Treasury monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these annual financial statements.

#### **Significant risks**

It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

Risks and exposures are disclosed as follows:

#### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014

2013

#### **47. Financial Instruments (continued)**

##### **Credit risk**

Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

##### **Liquidity risk**

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 49.8 and 49.9 to the annual financial statements.

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand

2014 2013

#### 47. Financial Instruments (continued)

##### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 42 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.

##### Liquidity and Interest risk tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

30 June 2014	6 Months or less R	6 – 12 Months R	1 – 2 Years R	2 – 5 Years R	More than 5 Years R	Total
Non-interest bearing	140 377 050	-	-	-	-	- 140 377 050
Variable interest rate instruments	3 281 879	-	-	-	-	- 3 281 879
Fixed interest rate instruments	13 014 267	13 789 267	27 578 533	88 053 182	176 338 319	318 773 568
	<b>156 673 196</b>	<b>13 789 267</b>	<b>27 578 533</b>	<b>88 053 182</b>	<b>176 338 319</b>	<b>462 432 497</b>

30 June 2013	6 Months or less R	6 – 12 Months R	1 – 2 Years R	2 – 5 Years R	More than 5 Years R	Total
Non-interest bearing	128 902 362	-	-	-	-	- 128 902 362
Variable interest rate instruments	3 195 209	-	-	-	-	- 3 195 209
Fixed interest rate instruments	13 341 575	14 022 221	27 855 736	86 821 869	148 414 872	290 456 273

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

30 June 2014	6 Months or less R	6 – 12 Months R	1 – 2 Years R	2 – 5 Years R	More than 5 Years R	Total
Non-interest bearing	224 435 449	-	-	-	-	- 224 435 449
Variable interest rate instruments	160 666 976	-	-	-	-	- 160 666 976
Fixed interest rate instruments	732 428	-	-	-	-	- 732 428
	<b>385 834 853</b>	-	-	-	-	<b>- 385 834 853</b>

30 June 2013	6 Months or less R	6 – 12 Months R	1 – 2 Years R	2 – 5 Years R	More than 5 Years R	Total
Non-interest bearing	110 307 114	-	-	-	-	- 110 307 114
Variable interest rate instruments	71 038 800	-	-	-	-	- 71 038 800
Fixed interest rate instruments	708 687	-	-	-	-	- 708 687

30 June 2014	6 Months or less R	6 – 12 Months R	1 – 2 Years R	2 – 5 Years R	More than 5 Years R	Total
Non-interest bearing	141 538 885	-	-	-	-	- 141 538 885
Variable interest rate instruments	71 038 800	-	-	-	-	- 71 038 800
Fixed Interest rate instruments	708 687	-	-	-	-	- 708 687
	<b>213 286 372</b>	-	-	-	-	<b>- 213 286 372</b>

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013				
<b>47. Financial Instruments (continued)</b>						
<b>30 June 2013</b>	<b>6 Months or less R</b>	<b>6 – 12 Months R</b>	<b>1 – 2 Years R</b>	<b>2 – 5 Years R</b>	<b>More than 5 Years R</b>	<b>Total</b>
Non-interest bearing	111 029 446	-	-	-	-	- 111 029 446
Variable interest rate instruments	77 321 980	-	-	-	-	- 77 321 980
Fixed Interest Rate Instruments	751 194	-	-	-	-	- 751 194
The municipality has access to financing facilities, the total unused amount which is R9,268 million at the balance sheet date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio, within 20-25% limits increasing it to 25%. This will be achieved through the issue of new debt and the increased use of secured bank loan facilities.						
<b>Effective interest rates and repricing analysis</b>						
In accordance with IAS 32.67(a) and (b) the following tables indicate the average effective interest rates of Income earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:						
<b>30 June 2014</b>	<b>6 Months or less R</b>	<b>6 – 12 Months R</b>	<b>1 – 2 Years R</b>	<b>2 – 5 Years R</b>	<b>More than 5 Years R</b>	<b>Total</b>
<b>FIXED RATE INSTRUMENTS</b>						
Held-to-maturity Investments	708 687	-	-	-	-	- 708 687
Notice deposits	708 687	-	-	-	-	- 708 687
Secured bank facilities	-	-	-	-	-	-
<b>VARIABLE RATE INSTRUMENTS</b>						
Call deposits	8 292 741	-	-	-	-	- 8 292 741
Bank balances and cash	152 374 235	-	-	-	-	- 152 374 235
Total variable rate instruments	-	-	-	-	-	-
<b>30 June 2013</b>	<b>6 Months or less R</b>	<b>6 – 12 Months R</b>	<b>1 – 2 Years R</b>	<b>2 – 5 Years R</b>	<b>More than 5 Years R</b>	<b>Total</b>
<b>FIXED RATE INSTRUMENTS</b>						
Held-to-maturity Investments	-	-	-	-	-	- 708 687
Notice Deposits	-	-	-	-	-	- 708 687
Secured Bank Facilities	-	-	-	-	-	-
Unsecured Bank Facilities	(196 417 375)	-	-	(350 803)	(16 676 442)	(194 950 517)
ABSA	(82 917 262)	-	-	-	-	(90 253 471)
DBSA	-	-	-	(350 803)	-	(350 803)
DBSA	(2 256 232)	-	-	-	(2 969 533)	-
DBSA	(18 936 108)	-	-	-	-	(20 566 435)
DBSA	(22 119 542)	-	-	-	-	(23 596 682)
DBSA	(58 279 886)	-	-	-	-	(60 533 930)
DBSA (Ex Hibiscus Coast)	(11 305 961)	-	-	-	(12 688 271)	-
DBSA (Ex Umdoni)	(469 959)	-	-	-	(658 112)	-
DBSA (Ex Umuziwabantu)	(132 425)	-	-	-	(360 527)	-
Total fixed rate instruments	(195 708 688)	-	-	(350 803)	(16 676 442)	(194 950 517)
<b>VARIABLE RATE INSTRUMENTS</b>						
Call deposits	12 012 570	3 119 372	-	-	-	-
Bank balances and cash	59 026 230	51 518 575	-	-	-	-
Total variable rate instruments	71 038 800	54 637 947	-	-	-	-

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
-----------------	------	------

#### **47. Financial Instruments (continued)**

##### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

##### **Investments/bank, cash and cash equivalents**

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with it's investment policy. Consequently, the municipality is not exposed to any significant credit risk.

##### **Trade and other receivables**

Trade and other receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and sanitation services rendered to them.

Trade receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality. Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.

Consumer receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

In the case of receivables whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of council's credit control and debt collection policy.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a rates clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014      2013

#### **47. Financial instruments (continued)**

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term receivables and other debtors are individually evaluated annually at statement of financial position date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment/discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists, based on the payment history of the parties.

Counterparty and Location	2014	2013
Ukusa River Estate Development	656 512	656 512
GJ Crookes Hospital	582 323	582 323
Ithala Developments Finance Corporation	563 852	563 852
San Lameer Estate Management	498 633	498 633
SA Botlink (Pty) Ltd	436 951	436 951

Except as detailed in the following table, the carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Fixed deposit investments	100	100
Long-term receivables	39 446	121 716
Consumer debtors	224 041 094	192 964 409
Other debtors	15 856 227	12 219 724
Bank, cash and cash equivalents	160 671 371	71 752 397
<b>Maximum credit and interest risk exposure</b>	<b>400 608 238</b>	<b>277 058 346</b>

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

<b>Consumer debtors:</b>		
Household	75.00 %	70.30 %
Industrial/commercial	17.00 %	15.98 %
National and Provincial Government	5 %	3.84 %
Other classes	- %	3.93 %
<b>Other debtors:</b>		
Other not classified	3.00 %	5.95 %
<b>Total credit risk</b>	<b>100 %</b>	<b>100 %</b>
<b>Bank and cash balances</b>		
ABSA Bank Ltd	160 666 470	70 999 413
First National Bank of SA Ltd	16 358	16 358
Cash equivalents	4 901	4 910
<b>Total bank and cash balances</b>	<b>160 687 729</b>	<b>71 020 681</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014

2013

#### **48. Multi-employer retirement benefit information**

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

Councillors have the option to belong to the Pension Fund for Municipal Councillors.

All full-time employees belong to the KwaZulu-Natal Joint Municipal Pension Fund, which are made up of the Retirement, Superannuation and Provident Funds.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors/employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the statement of financial performance of R??? (2013: R24 633 195) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

#### **Defined benefit schemes**

##### **Retirement fund**

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R251,5 (31 March 2011: shortfall of R382,3) million, with a funding level of 82,0% (31 March 2011: 84,1%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (34,22%) was expected to eradicate the shortfall in the fund by 31 March 2015. However, the basic contribution payable is 4,72% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17% of pensionable emoluments, of which 1,65% is payable by members and 15,35% is payable by the local authority.

This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the surcharge be increased to 15,85% (Total employer contribution of 34,22%) and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 15,85% with effect from 1 July 2012 for an indefinite period of time. The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund merge with the Superannuation Fund in the near future.

##### **Superannuation fund**

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R270,0 (31 March 2011: R549,5) million, with a funding level of 96,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 3,63% (31 March 2011: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% of pensionable salaries to meet the shortfall within the 8 year period provided for in the scheme. It was expected that the deficit will be fully funded by 2020.

This surcharge is payable until 31 March 2020. It is necessary that the basic employer contribution be increased by 3,63% to 21,63% and the surcharge be increased to 9,5% and extended by a further 8 years to 31 March 2020. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 31,13% with effect from 1 July 2012 for an indefinite period of time.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014

2013

#### **48. Multi-employer retirement benefit information (continued)**

It is intended that the fund merge with the retirement fund in the near future.

##### **Defined contribution schemes**

###### **Municipal councillors pension fund**

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 31 March 2012.

The statutory valuation performed as at 30 June 2011 revealed that the market value of the fund was R1 446,8 (30 June 2010: R1 446,8) million. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the actuaries, the fund was in a sound financial condition as at 30 June 2014.

###### **Provident fund**

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Eis & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the market value of the fund was R1 293,4 (31 March 2011: R1 056,2) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 1,95 times the member's contributions by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2012.

##### **Related party transactions**

During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>48. Multi-employer retirement benefit information (continued)</b>		
<b>For the year ended 30 June 2014</b>	<b>Sewerage charges</b>	<b>Water charges</b>
	R	R
Councillors	49 489	104 375
Municipal Manager and Section 57 Personnel	7 041	22 725
	<b>56 530</b>	<b>127 100</b>
<b>For the year ended 30 June 2013</b>	<b>Sewerage charges</b>	<b>Water charges</b>
	R	R
Councillors	41 119	78 459
Municipal Manager and Section 57 Personnel	4 919	17 387
	<b>46 038</b>	<b>95 846</b>

The services rendered to related parties are charged at approved tariffs that were advertised to the Public. No bad debts were written off or recognised in respect of amounts owed by related parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer deposits were received from councillors, the Municipal Manager and Section 57 Personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

#### Loans granted to related parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004.

#### Compensation of related parties

Compensation of Key Management Personnel and Councillors is set out in Notes 28 and 29 respectively, to the Annual Financial Statements.

#### Purchases from related parties

The municipality procured goods and/or services from the following companies, which are considered to be related parties:

30 June 2014 Company Name	Related Person	Municipal Capacity	Purchases for the Year
Paul Preston Attorneys	P Preston	Audit Committee	-
Shelly Travel CC	CV Elliott	Audit Committee	447 666
Dan's Cleaning Services	T Mialishe	Employee	-
RNF Contractors	M Goberdaan	Employee	-
Vovoletu Function and Catering	Z Mbhele	Employee	18 240
Victorson Building CC	TB Mhlongo	Employee	-
Ncokwane Trading Enterprise	PP Chili	Employee	-
Nothevuyo Trading and Projects	ZL Cele	Employee	-
Ntlangano Projects	MC Makiwane	Employee	6 007 656
Skhunyana Training Consultants	NP Gumbi		1 109 791
Budding Trade 1180 CC	Z Mkhwanazi		2 500
Thutong Training & Development	ZI Ntlangula		15 000
Isifiso Sika Ndlovu Contracting and Trading CC	NP Msani		848 107
			<b>8 448 960</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013		
<b>48. Multi-employer retirement benefit information (continued)</b>				
<b>30 June 2013</b>				
<b>Company Name</b>	<b>Related Person</b>	<b>Municipal Capacity</b>		
MB Electrical & Lighting	Cllr Moosa Bux	Councillor	-	22 054
Paul Preston Attorneys	P Preston	Audit Committee	-	57 663
Shelly Travel CC	CV Elliott	Audit Committee	610 294	-
Dan's Cleaning Services	T Malishe	Employee	-	20 760
RNF Contractors	M Goberdaan	Employee	-	273 185
Vovolethu Function and Catering	Z Mbhele	Employee	-	21 888
Victorson Building CC	TB Mhlongo	Employee	86 528	86 528
Ncokwane Trading Enterprise	PP Chilli	Employee	-	2 600
Nothevuyo Trading and Projects	ZL Cele	Employee	299 244	
Ntlangano Projects	MC	Employee	27 823 866	18 192 553
	Makiwane			
			<b>28 819 932</b>	<b>18 677 231</b>

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>49. Contingent liabilities</b>		
<b>Guarantees:</b>	<b>3 062 000</b>	<b>2 862 000</b>
i) Hibiscus Coast Municipality: The Municipality issued a bank guarantee in favour of Hibiscus Coast Municipality in lieu of a deposit on the electricity accounts of the Municipality.	10 000	10 000
(ii) Eskom: The Municipality issued a bank guarantee in favour of Eskom to cover deposits on the electricity accounts of the Municipality.	2 852 000	2 852 000
(iii) South African Post office: The municipality issued a bank guarantee in favour of South African Post office.	200 000	-
<b>Powers and functions:</b>	<b>12 947 266</b>	<b>12 947 266</b>
(i) Environmental Health: It has come to the attention of management that a local municipality has indicated its intention of raising a claim against the district to recover expenses incurred in respect of the Environmental Health Powers and Functions. Negotiations have been entered into in this regard between the municipalities. Currently management is of the opinion that there are no legal grounds to entertain a possible claim.	5 075 295	5 075 295
ii) Water and Sanitation: With the takeover of Water and Sanitation Schemes from the local municipalities in 2004, certain assets were funded through internal funding which these local municipalities are claiming from the district. Currently management is of the opinion that there are no legal grounds to entertain the possible claims.	7 871 971	7 871 971
<b>Court proceedings:</b>	<b>8 384 129</b>	<b>2 178 012</b>
(i) Dispute on Expenditure Claimed: Council is involved in a dispute with Sublime Marketing (the applicant), where the applicant is claiming an amount of R227 142, with interest estimated at R192 432, in respect of functions performed on behalf of Ezinqoleni Municipality/ Horseshoe Farm. The municipality is currently defending the estimated claim and is awaiting the enrolment of the matter for trial. The outcome of the legal processes is unknown at this stage. The Municipality denies any agreement with Sublime, and therefore will not be settling on this matter. We await court action from Sublime.	419 574	419 574
(ii) Alleged Fraud: Council has been involved in a court case with ABCON/PILCON Projects into alleged fraud and/or fronting in terms of its supply chain management Policy. Although judgement has been passed, an appeal has been lodged and is still pending in the High Court. The outcome is not known at this stage.	-	-
(iii) Cession Agreement: JZZ Engineering is claiming from the municipality as per a prescribed claim against a cession agreement entered into. The possible liability amounts to R153 900, plus costs. The outcome of the matter is still unknown. The Municipality has drafted and entered its plea in the matter.	153 900	153 900
(iv) Alleged Breach of Contract: The municipality is been involved in a court case with Thumbprint events Management, where it is alleged that the municipality has unilaterally repudiated a contract. Applicant is claiming unpaid invoices and damages in terms of what would have been due to them had the contract not been repudiated by the municipality. The municipality is defending this action and awaits a court date. The claim is valued at R875 258 plus 30% of envisaged gate takings for two events and 25% of sale of floor space for two events.	875 248	875 248
	100 000	-

## Ugu District Municipality

Annual Financial Statements for the year ended 30 June 2014

### Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>49. Contingent Liabilities (continued)</b>		
v) Alleged Damages caused to Farmland: The municipality has been issued with a court order instructing it to immediately cease the nuisance caused on Mr Meuller's property at Lot 2007 Uvongo through the discharge of final sewer effluent into a tributary of the Uvongo River on his land, thereby causing a ravine on his land and rendering it unfarmable to him. He is further claiming for damages caused through non-usability of his land, damages for loss of profit as a result of the damage caused to his property and the subdivision and transfer of the damaged land to the Municipality. The Municipality is currently negotiating with him with respect to his potential claims.	-	-
(vi) Labour Dispute: The Municipality dismissed an employee, N Moodley, who took the matter to arbitration and was successful. The Municipality has referred the matter to the Labour Court, and awaits a set down date.	- 1 000 000	
(vii) Cession Agreement: Premier Attraction is claiming from the Municipality for allegedly not honouring a cession agreement in their favour. The outcome of the matter is still unknown.	122 682	122 682
(viii) Dispute on Expenditure Paid to Member of Joint Venture: The Municipality is involved in a matter with Gigaba Properties where applicant is claiming that the Municipality wrongly paid one member of a joint venture which had been awarded a contract by the Municipality. The Municipality is defending the matter and awaits a trial date. The claim against the Municipality is in an amount of R6 659 282 plus 15,5% interest on R16 573 819 from February 2009 until payment and 15,5% interest on R3 424 024 from October 2008 until payment.	6 659 282	6 659 282
(ix) Dispute on Expenditure Claimed: The Municipality is expectant of litigation from Shosholoza JV where they claim for non-payment of invoices in respect of work done on Sports Complex.	- 6 584 968	
(x) Dispute on Expenditure Claimed: The Municipality is involved in litigation with Mabinza Welding, who is claiming for nonpayment by Municipality. A counter claim was made for non-performance.	- 1 030 375	
(xi) Dispute on Damages Claimed: The Municipality is involved in litigation with JD Group emanating from a motor vehicle accident between a municipal vehicle and a JDG vehicle.	53 443	-
(xii) Dispute on Expenditure Claimed: Municipality is expectant of litigation from L'Afrique Liquide where they claim an amount of R3,5 million pursuant to alleged work conducted as a result of being awarded preferred bidder status on a project for Alternate bulk water supply.	- 3 500 000	
(xiii) Dispute on Excessive Salary Increases: Municipality is expectant of litigation from Natal Joint Municipal Pension/Provident Fund where they claim an amount of R1 442 982,62 as a result of alleged excessive salaries paid to Employees.	- 1 442 983	
(xiv) Dispute on non-award of awarded tender: The Municipality is currently in litigation with Isidingo pursuant to non-award of a tender award. Matter was in High Court on 2 August 2013. Await order confirming award to be made to Isidingo and non opposition by awarded contractor, subject to payment of legal fees incurred. Amount of legal fees is not yet available.	-	-

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>49. Contingent Liabilities (continued)</b>		
<b>Current objections against Scm process</b>		
Ugu-07-1201-2012: Value of R1 305 000.00	4 461 847	1 305 000
Ugu-07-1242-2013: Value of R1 489 542.00	61 325 743	1 489 542
Ugu-07-1255-2013: Value R5 208 907.38	34 420 883	5 208 907
	<b>100 208 473</b>	<b>8 003 449</b>

#### **Contingencies arising from pending litigation on wage curve agreement**

On 21 April 2010 SALGA signed the "Categorisation and job evaluation wage curves collective agreement" (wage curve agreement) with IMATU and SAMWU on behalf of municipalities. The agreement established the wage curves and wage scales to be used by municipalities in determining the wages of municipal employees, based on an evaluation of employees' jobs per the TASK job evaluation system.

Subsequent to the signing of the agreement, the unions declared a dispute with the agreement. The dispute was referred to the Labour Court and the court delivered a ruling on 22 June 2012 that employees receive a salary increase backdated with effect from 1 July 2010 instead of 1 July 2011. SALGA, on behalf of municipalities, applied for leave to appeal this ruling and was granted the right to appeal against the judgement on 29 August 2012. To date this Labour Court of Appeal case has not been finalised.

The municipality has not implemented the TASK job evaluation system nor the wage curve agreement as yet. The costs involved towards the implementation of the TASK job evaluation system and the wage curve agreement and the settlement of this matter are unknown at this stage.

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this payable prior to the outcome of the pending litigation.

#### **50. Contingent Assets**

i) Legal claim against Ingqondo and Nzwakale Construction for alleged fraud and undue enrichment from contracts awarded by the municipality.	4 714 038	-
--	-----------	---

#### **51. Events after the reporting date**

No events having financial implications requiring disclosure occurred subsequent to 30 June 2014.

#### **52. Comparative figures**

The comparative figures were restated as a result of the effect of Prior Period Errors (Note 37).

#### **53. Revenue**

Service charges	314 783 607	274 524 180
Rental of facilities and equipment	2 193 961	1 693 135
Interest received (trading)	32 566 582	20 305 215
Other income - (rollup)	6 378 760	11 856 263
Government grants & subsidies	664 584 167	590 984 388
	<b>1 020 507 077</b>	<b>899 363 181</b>

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014      2013

#### **53. Revenue (continued)**

The amount included in revenue arising from exchanges of goods or services  
are as follows:

Service charges	314 783 607	274 524 180
Rental of facilities and equipment	2 193 961	1 693 135
Interest received (trading)	32 568 582	20 305 215
Other income - (rollup)	6 378 760	11 856 263
<hr/>		<hr/>
	<b>355 922 910</b>	<b>308 378 793</b>

The amount included in revenue arising from non-exchange transactions is as  
follows:

Taxation revenue	664 584 167	590 984 388
Transfer revenue		
Government grants & subsidies		

#### **54. Property rates**

#### **55. Tax refunded**

#### **56. Remuneration of Councillors**

Remuneration of Councillors are from capital surpluses.

## **Ugu District Municipality**

Annual Financial Statements for the year ended 30 June 2014

### **Notes to the Annual Financial Statements**

Figures in Rand

2014

2013

57. Other cash item 1

**APPENDIX A**  
**UGU DISTRICT MUNICIPALITY**

**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2014**

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at		Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2014
					R	R			
<b>ANNUITY LOANS</b>									
DBSA	102 000 000	11.51%	4076267341	30/06/2020	82 917 262	-	8 217 756	-	74 699 506
DBSA	5 000 000	2.65%	100932/001	30/06/2015	2 256 232	-	732 357	1 523 874	
DBSA	25 000 000	5.00%	101980/001	31/03/2022	18 936 108	-	1 713 042	17 223 066	
DBSA	25 000 000	5.00%	101980/002	30/06/2023	22 119 542	-	1 552 101	20 567 442	
DBSA	62 000 000	5.00%	102756/001	30/06/2029	58 279 886	-	2 369 245	55 910 641	
DBSA (Ex Hibiscus Coast)	18 573 441	Various	Various	Various	11 305 961	-	1 271 921	10 034 040	
DBSA (Ex Umdoni)	2 500 000	Various	Various	Various	469 959	-	96 074	373 885	
DBSA (Ex Umuziwabantu)	1 850 000	Various	Various	Various	132 425	-	38 516	93 909	
<b>Total Annuity Loans</b>	<b>241 923 441</b>				<b>196 417 375</b>	-	<b>15 991 012</b>	<b>180 426 362</b>	
<b>CAPITAL LEASE LIABILITIES</b>									
DBSA	10 000 000	6.60%	Various	Various	9 631 050	-	3 145 308	6 485 742	
<b>Total Capital Lease Liabilities</b>	<b>20 100 000</b>				<b>9 631 050</b>	-	<b>3 145 308</b>	<b>6 485 742</b>	
<b>TOTAL EXTERNAL LOANS</b>	<b>262 023 441</b>				<b>206 048 425</b>	-	-	-	<b>186 912 105</b>

**APPENDIX B**  
**UGU DISTRICT MUNICIPALITY**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2014**

**APPENDIX B**  
**UGU DISTRICT MUNICIPALITY**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2014**

Other Assets	21 682 732	811 705	3 685 784	-	26 360 201	18 286 997	2 689 644	-	-	21 135 841	5 223 560	1 610 000
Computer Equipment					2 656 263	178 798	23 301	-	-	186 689	2 456 514	-
Computer Hardware					38 940	23 487	4 511	-	-	27 988	10 042	-
Furniture and Fixtures:					558 253	345 072	62 138	-	-	407 210	151 043	-
Cabinets and Cupboards					494 828	332 794	27 689	-	-	360 483	134 445	-
Chairs												5 650 000
Desks and Tables												
Other Furniture and Fixtures:												
Motor Vehicles:												
Buckets (LDV's)												
Motor Cars												
Tractors												
Trailers and Accessories												
Trucks												
Office Equipment:												
Air Conditioners												
Automobile Equipment												
Kitchen Appliances												
Office Equipment / Machines												
Photographic Equipment												
Other Office Equipment												
Plant and Equipment:												
Construction Equipment												
Compressors, Generators & Allied Eq												
Gardening Equipment												
Laboratory Equipment												
Plumbing, Sanitaryware / Fixtures / Sanitation Equipment												
Radio Equipment												
Security Equipment : Systems / Materials												
Telecommunications Equipment												
Other Plant and Equipment												
Specialised Vehicles:												
Graders												
Watertrucks												
Caterpillars												
Total PIPE												
	124 623 942	11 484 899	3 685 784	-	12 825 339	137 178 210	84 187 429	12 868 589	-	98 824 637	40 345 173	16 259 000
	3 076 782 531	29 846 212	354 924 829	-	3 367 918 217	12 825 339	85 512 602	12 868 589	-	1 096 284 422	2 372 653 726	-
												3 427 759 000

**UGU DISTRICT MUNICIPALITY**  
**ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2014**

Description	Opening Balance	Additions	Under Construction	Transfers	Deposits	Operating Balance	Closing Balance	Transfers	Deposits	Closing Balance	Carrying Value	Budget Authorisation 2014	
Intangible Assets	R	R	R	R	R	R	R	R	R	R	R	R	
Computer Software	27 065 513	2 389 344	-	(150 000)	29 304 677	19 410 132	3 073 264	-	(110 922)	22 364 464	6 040 413	226 000	
Rights and Intellectual Properties	2 579 372	79 707	-	-	2 650 159	-	-	-	-	-	2 650 159	-	
Total Intangible Assets	29 644 885	2 469 151	-	-	31 945 036	19 410 132	3 073 264	-	(110 922)	22 364 464	6 040 413	226 000	
Total Asset Register		3 064 477 416	22 335 933	24 994 629		3 398 022 285	1 046 191 964	68 585 226	-	(110 922)	9 517 440 896	1 722 223 377	3 427 759 000

**APPENDIX C**  
**UGU DISTRICT MUNICIPALITY**  
**SEGMENTAL ANALYSIS OF CAPITAL ASSETS AS AT 30 JUNE 2013**

Description	Cost / Revaluation						Accumulated Depreciation / Impairment						Carrying Value R
	Opening Balance R	Additions R	Under Construction R	Transfers R	Disposals R	Closing Balance R	Opening Balance R	Additions R	Transfers R	Disposals R	Closing Balance R		
Executive and Council	34 063 261	-	-	-	-	-	-267 720	33 795 541	5 201 434	178 595	-	5 380 029	28 415 512
Finance and Administration	134 107 610	2 417 186	1 465 988	-	-	-150 000	137 840 984	48 488 670	7 664 370	-	56 153 040	81 687 924	
Planning and Development	364 182 037	18 364 686	204 995 869	-	-	-	587 542 592	1 921 522	615 577	-	2 537 100	585 005 493	
Health	-	-	-	-	-	-	-	-	-	-	-	-	
Community and Social Services	-	-	-	-	-	-	-	-	-	-	-	-	
Housing	156 391	-	3 555 318	-	-	3 711 709	142 276	6 542	-	-	148 818	3 562 891	
Public Safety	115 179 203	-	-	-115 179 203	-	13 349 603	5 328 657	-	-	-	18 678 290	96 500 912	
Sport and Recreation	432 953	-	-	-	-	432 953	261 983	9 843	-	-	271 826	161 127	
Environmental Protection	281 300 905	-	160 100	-	-322 424	281 138 580	114 040 417	6 509 692	-	-118 932	120 431 177	180 707 403	
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	
Roads and Transport	2 176 608 013	11 553 491	53 921 187	-	-2 235 211	2 239 847 480	865 443 774	49 252 421	-	-	913 696 196	1 326 151 284	
Water	396 844	-	-	-	-	396 844	332 224	23 610	-	-	356 033	40 610	
Electricity	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>3 106 427 416</b>	<b>32 335 363</b>	<b>264 098 441</b>	<b>-</b>	<b>-2 975 345</b>	<b>3 395 065 065</b>	<b>1 049 181 904</b>	<b>69 589 536</b>	<b>-</b>	<b>-118 932</b>	<b>1 117 652 503</b>	<b>2 282 233 357</b>	

**APPENDIX F**  
**UGU DISTRICT MUNICIPALITY**  
**DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

**Grants and Subsidies Received**

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts						Grants and Subsidies Disbursed / Withheld						Comments on Disbursement to Government Act 17 Year/ Month/ Yes / No	
		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.		
<b>Chambers Expenditure</b>															
7/13	Equitable Share	0	1 250 000	0	0	0	740 647	50 728	254 430	162 500	294 666	N/A	N/A	N/A	
	National Treasury	0	117 658 000	95 463 000	71 765 000	0	70 155 000	71 079 000	71 079 000	71 079 000	71 079 000	N/A	N/A	N/A	
	Dept Sport & Rec											Yea	Yea		
	Dept Agriculture	0	0									N/A	N/A		
	DEAT	0	100 000									N/A	N/A		
	DLGA	11 700 131	100 000									N/A	N/A		
	DPLO	0	12 653 000	9 424 000	107 304 000	111 767 841	46 207 822	77 775 175	39 434 471	120 622 977	N/A	N/A	N/A	N/A	
	EPWP	0	400 000	300 000	300 000	216 245	200 480	108 820	218 557	104 651	431 565	N/A	N/A	N/A	
	Dpt Transport	0	2 600 000	3 200 200	11 770 561	27 630 820	7 208 893	5 077 777	2 630 620	0 869 569	705 289	22 187 159	N/A	N/A	N/A
	DVAF											15 614 707	N/A	N/A	
	DSAA											166 389	339 230	N/A	
	INC											61 114	N/A	N/A	
	Neural Library											361 187	179 175	N/A	
	OTHER	664 553										704 513	292 620	N/A	
	Total Grants and Subsidies Received	12 462 861	269 116 200	110 527 591	266 259 459	7 269 860	219 749 827	127 866 612	168 520 368	213 372 861	0	2 526 200	0		